Rathbones
Look forward

Preliminary results for the twelve months ended 31 December 2020

A resilient 2020 performance

Paul Stockton, chief executive, said:

"Rathbones delivered a resilient performance in an immensely challenging year. We continued to deliver a high-quality service to clients, whilst prioritising the safety and wellbeing of our employees, advancing our strategy and keeping a close eye on operating costs.

Funds under management and administration (FUMA) grew by 8.5% to reach £54.7 billion at 31 December 2020, reflecting both strong investment performance and growth. Underlying profit before tax increased by 4.3% to £92.5 million, delivering an underlying operating margin of 25.3% that was consistent with the prior year despite lower investment markets.

As a consequence, the board is announcing a final 2020 dividend of 47 pence per share, which brings the total dividend to 72 pence per share, an increase of 2.9% over 2019. 2020 marks the 11th consecutive year in which we have increased our total annual dividend.

Whilst we expect 2021 to remain volatile, our balance sheet is robust with a strong capital position. Our near-term focus is to execute our growth strategy, to build our market share, to balance ongoing investment in the business, and to continue to apply strict cost discipline. Rathbones will emerge stronger after the challenges of the pandemic begin to subside."

Financial highlights

- Total FUMA reached £54.7 billion at 31 December 2020, up 8.5% from £50.4 billion at 31 December 2019
  - £44.9 billion in the Investment Management business, up 4.4% (2019: £43.0 billion)
  - £9.8 billion in the funds business, up 32.4% (2019: £7.4 billion)
- Total net inflows across the group were £2.1 billion (2019: £0.6 billion), representing a growth rate of 4.2% (2019: 1.3%)
  - Gross organic inflows in Investment Management were consistent at £3.3 billion in 2020 compared to £3.3 billion in the prior year
  - Acquired inflows of £0.6 billion in Investment Management largely reflect the transfer of assets from Barclays Wealth (£0.4 billion)
  - Investment Management outflows for the year totalled £3.3 billion (2019: £3.9 billion)
  - Net inflows in our funds business were £1.5 billion (2019: £0.9 billion)
- Profit before tax for the twelve months to 31 December 2020 was £43.8 million (2019: £39.7 million). Basic earnings per share totalled 49.6p (2019: 50.3p)
- Operating income totalled £366.1 million, 5.2% ahead of the prior year (2019: £348.1 million)
  - Operating income in Investment Management totalled £320.6 million, an increase of 3.1% on the prior period (2019: £310.9 million)
  - Operating income in our funds business totalled £45.4 million, an increase of 22.0% on the £37.2 million reported in 2019
- Underlying[1] profit before tax totalled £92.5 million, an increase of 4.3% (2019: £88.7 million); underlying operating margin of 25.3% (2019: 25.5%)
- Underlying[1] earnings per share totalled 133.3p (2019: 132.8p)

1. A reconciliation between the underlying measure and its closest IFRS equivalent is provided in Table 2 of the financial performance section.

Declaration of final dividend

The board recommends a final dividend of 47p for 2020 (2019: 45p), making a total of 72p for the year (2019: 70p), an increase of 2.9% on 2019. This reflects confidence in the outlook for the business and its strong capital position. The dividend will be paid on 11 May 2021, subject to shareholder approval at our 2021 Annual General Meeting, to shareholders on the register on 23 April 2021.

2020 results presentation

A presentation detailing Rathbones 2020 results is available on the investor relations website (www.rathbones.com/investor-relations).

A virtual presentation to analysts and investors will take place this morning at 11am. Participants that wish to join the presentation can do so by either joining the video webcast (www.investis-live.com/rathbone-brothers/602548d79a13881000d4e0f9/gwrw) or by dialling in using the conference call details below:

United Kingdom: 0800 640 6441

United Kingdom (Local): 020 3936 2999

All other locations: +44 203 936 2999

Participant access code: 889712

A Q&A session will follow the presentation. Participants will be able to ask their questions either via the webcast by typing them in or via the conference call line.

A recording of the presentation will be available later today on our website at: www.rathbones.com/investor-relations/results-and-presentations.

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For further information contact:

Rathbone Brothers Plc
Tel: 020 7399 0000
email: dominic.lagan@rathbones.com

Paul Stockton, Chief Executive
Jennifer Mathias, Group Finance Director
Dominic Lagan, Head of Investor Relations

Camarco
Tel: 020 3757 4984
email: ed.gascoigne-pees@camarco.co.uk

Ed Gascoigne-Pees
Julia Tilley

Rathbone Brothers Plc

Rathbones provides individual investment and wealth management services for private clients, charities, trustees and professional partners. We have been trusted for generations to manage and preserve our clients' wealth. Our tradition of investing and acting responsibly has been with us from the beginning and continues to lead us forward. Our ambition is to be recognised as the UK's most responsible wealth manager.

Rathbones has over 1,500 staff in 15 UK locations and Jersey; its headquarters is 8 Finsbury Circus, London.

rathbones.com

Chairman's statement

A review of 2020

2020 was an extraordinary year. Initial optimism in financial markets was curtailed by the rapid advance of the COVID-19 pandemic and resulting lockdowns, which had a devastating impact on societies and economies worldwide. Financial markets crashed initially but then rallied following massive interventions by central banks and governments resulting in US markets hitting new highs with technology stocks driving the advance.

The response from Rathbones was speedy and effective. We established a crisis committee in early March which oversaw a seamless transition to remote working for the vast majority of our people and we provided ongoing support to them through high levels of engagement and a number of wellbeing initiatives. We also increased communication with our clients to ensure an enhanced service, including both support and advice. We were able to take advantage of our first-class strategic asset allocation and research capabilities to provide our investment managers with the best strategies and ideas for a hugely volatile market. As a result, our investment performance was strong across the group, which serves to reinforce the benefits of active investment management in turbulent times.

Our strong investment performance helped ensure that, notwithstanding the significant market volatility during the year, our funds under management and administration grew by 8.5% to £54.7 billion.

Profit before tax totalled £43.8 million (2019: £39.7 million) reflecting anticipated costs associated with the acquisition of Speirs & Jeffrey. Basic earnings per share decreased to 49.6p from 50.3p in 2019.

Underlying profit before tax totalled £92.5 million (2019: £88.7m), resulting in an underlying operating margin of 25.3% (2019: 25.5%). Underlying earnings per share in the period totalled 133.3p (2019: 132.8p).

In line with our generally progressive dividend policy and reflecting confidence in the outlook for the business and its strong capital position, the board is pleased to recommend a final dividend of 47p per share. This brings the total dividend for the year to 72p per share, 2.9% ahead of 2019.

Our purpose and culture

As I mentioned in my statement last year, we completed a firm-wide exercise in 2019 to encapsulate the purpose of Rathbones. We concluded that our purpose is to think, act and invest responsibly. This has been embraced by our employees.

Rathbones has a distinctive client-centric, collaborative and entrepreneurial culture which represents a key strength. A strong culture is fundamental to our success over the long term and our board reporting includes increasingly sophisticated management information on this.

Environmental, social and governance (ESG)

ESG continued to grow in importance as the global effects of the pandemic and climate change have become obvious, with a consequent impact on social inequalities. The pandemic has also accelerated interest among our clients in responsible investing. We have long been at the forefront in this area through Rathbone Greenbank Investments, which has been creating bespoke ethical, sustainable and impact portfolios for clients for over 20 years. We are now making good progress towards fully integrating ESG into our investment process across the group and are developing market-leading propositions through the specialist funds offered by Rathbones Unit Trust Management. Our ambition is to be recognised as the UK's most responsible wealth manager.

We believe it is in our clients' best interests to ensure that the companies in which we invest on their behalf adopt best practice in promoting a constructive ESG agenda. Our highly regarded stewardship team proactively engages with companies to discuss ESG issues.

Finally, the board is strongly committed to corporate governance and firmly believes that a robust governance framework is vital to the long-term success of the firm and the achievement of its strategy. We recognise that strong corporate governance is not just about complying with the UK Corporate Governance code – it is also about our firm's culture, our behaviours and how we service our clients.

Strategy

As we invest to grow the business organically by deepening our investment expertise, improving our client service and proposition, driving productivity and efficiency, and inspiring our people, we are doing so responsibly by ensuring that all strategic decisions are taken in the best interests of all our stakeholders.

The pandemic has not altered our strategy, rather it has helped to accelerate our plans in many areas. During the year we made good progress on digital infrastructure initiatives and the automation of client administration processes. In addition, we strengthened our specialist capabilities by growing our charities team and completing the acquisition of the Barclays Wealth Court of Protection business. Progressing our digital transformation agenda will be a key strategic focus in 2021.

Engaging with our people and shareholders

Rathbones is fundamentally a people business. Our key priority during 2020 was to support the mental health and wellbeing of our people to ensure that they remained engaged. Our annual employee engagement survey had an overall engagement score of 91%, compared to 86% in 2019.

Last year, as our response to the workforce engagement initiative, Sarah Gentleman and Colin Clark were nominated to be responsible for gathering feedback from employees and they have continued their efforts this year with enthusiasm, meeting with a broad spectrum of employees and reporting back to the board on all aspects of their discussions.

Rathbones is an equal opportunities employer and it is our policy to ensure that all job applicants and employees are treated fairly and on merit. We continue to focus on addressing our gender and ethnicity balance, improving our insight and awareness in relation to diversity and inclusion, and reflecting this in our working practices.

Maintaining a transparent and constructive dialogue with our shareholders is a very important mechanism for providing useful feedback to the board. This year I have enjoyed discussions with shareholders on our strategy, dividend policy and governance initiatives. The chair of our remuneration committee also undertook an extensive shareholder engagement programme to discuss the proposals for our new executive remuneration scheme which will be brought to shareholders for approval at our 2021 Annual General Meeting (AGM).

The board and succession

As I mentioned in my statement last year, I have served as a non-executive director for over 10 years and as chairman since May 2011. My tenure therefore exceeds the requirements outlined in the UK Corporate Governance Code. The board initiated a process during 2020 for the appointment of my successor. The search was successful, and Clive Bannister will succeed me as chairman at the conclusion of the 2021 AGM on 6 May, subject to shareholder and regulatory approval. Clive has had an extensive career in financial services and will bring a wealth of strategic, commercial and financial experience to the board.

Jim Pettigrew has also indicated that he will step down at the 2021 AGM. Jim has made a huge contribution to the board, both as non-executive director and senior independent director, and I am particularly grateful for his wise advice. As part of the board's succession plans, I am pleased that Colin Clark has been appointed to succeed Jim as senior independent director.

In addition, as part of our review of board effectiveness and succession planning, we constantly monitor the breadth and depth of knowledge, industry experience and diversity within the board and assess what new skills are necessary to continue constructive challenge and guidance to the executive team. As a result, we have initiated a process to appoint an additional non-executive director in 2021.

Looking back

Rathbones has enjoyed a remarkably successful year, delivering a resilient financial performance and making good strategic progress in what has been a highly uncertain environment.

On behalf of the board I would like to thank the management team and staff for their dedication and support during the year. I would also like to thank our clients and shareholders for their ongoing commitment to Rathbones.

It has been a pleasure and privilege to work with such high-calibre colleagues at Rathbones over the last 10 years, and I am tremendously proud of what the business has achieved during that time.

Looking ahead

The outlook for 2021 is uncertain and we can expect continuing volatility. Although the ebbs and flows in the struggle to contain the pandemic are likely to be the dominant factor throughout the year, the global geopolitical landscape remains as uncertain as ever and the real implications of Brexit have yet to emerge. That said, Rathbones is well-positioned with a strong balance sheet and the right strategy in place. There is strong momentum building in the business and I have the utmost confidence that we are well-placed to go from strength to strength.

Mark Nicholls
Chairman

3 March 2021

Chief executive's review

Introduction

External events are always part of what defines the success of any wealth management business, and 2020 saw more than its fair share. In responding to the combined impacts of market volatility, COVID-19 and Brexit, alongside some significant economic and political change, our focus throughout has been on delivering a high-quality client service, keeping our employees safe, and actively managing our operating margin. We have also taken many positive strides in delivering strategic change.

Continued growth in funds under management and administration (FUMA)

Market volatility was reflected in most indices in 2020. The FTSE 100 Index ended the year at 6461, down 14.3% from the start of the year, while the MSCI PIMFA Private Investor Balanced Index was flat year-on-year. Our continuing growth and strong investment performance more than offset lower market levels, resulting in total FUMA of £54.7 billion at the end of the year (2019: £50.4 billion). Total net inflows across the group were £2.1 billion (2019: £0.6 billion), representing a growth rate of 4.2% (2019: 1.3%).

Investment Management FUMA grew by 4.4% to £44.9 billion (2019: £43.0 billion). Gross organic inflows in Investment Management were £3.3 billion, consistent with the prior year, and a steady performance considering the prominence of face-to-face sales in our business model.

Outflows in Investment Management totalled £3.3 billion in 2020 (2019: £3.9 billion), reflecting better retention, but somewhat offset by continuing client demand for liquidity and the impact of planned repricing. Outflows from closed accounts as a percentage of opening FUMA reduced from 4.7% in 2019 to 3.0% in 2020. Approximately 18% of outflows during 2020 related to lower-margin or short-term cash mandate business compared to 15% in 2019.

Our funds business had a very successful year with funds under management (FUM) reaching £9.8 billion at 31 December 2020 (2019: £7.4 billion). Net inflows totalled £1,498 million (2019: £943 million), representing 20.1% of opening FUM (2019: 16.7%). Rathbones was ranked in ninth position for overall net retail unit trust sales in the UK in both 2020 and 2019 (source: Pridham Report), maintaining its top 10 position for seven consecutive quarters. Our funds business comprises core single-strategy funds and multi-asset funds that provide a comprehensive suite of wealth solutions for financial advisers and their clients. Our multi-asset funds also underpin our offering for clients with smaller values to invest. Single-strategy funds grew 28.6% to £8.1 billion in 2020 (2019: £6.3 billion) while our multi-asset funds grew by 54.5% to £1.7 billion (2019: £1.1 billion).

Rathbone funds received several accolades during the year. These included being named best investment fund provider at the Investment Life & Pensions Moneyfacts awards; our Ethical Bond Fund was awarded Best Sustainable & ESG Bond Fund in the Investment Week Sustainable and ESG Investment Awards; our Strategic Growth Fund received the City of London Wealth Management award for Best Fund 2020, and our Global Sustainability Fund won the Best ESG Investment Fund – Wealth Manager at the ESG Investing Awards 2021.

A resilient financial performance

Operating income across the group totalled £366.1 million in 2020, 5.2% ahead of the prior year (2019: £348.1 million). Fee income growth reflected market movements as well as planned post acquisition repricing of ex Speirs & Jeffrey clients. Strong commission income was driven by market volatility, particularly during the first half of the year. This was partly offset by a reduction in net interest income as a result of Bank of England base rate reductions made in March 2020. Fees from advisory and other services were £21.1 million in 2020, up 3.4% on the prior year (2019: £20.4 million) despite lower market levels.

Underlying profit before tax of £92.5 million at 31 December 2020 was 4.3% ahead of the £88.7 million reported a year ago despite Financial Services Compensation Scheme (FSCS) levies increasing to £6.3 million (2019: £4.5 million). The full year cost for 2021 is currently expected to be in line with 2020. We continue to lobby alongside industry groups to find a more equitable way of managing this cost, which now represents 6.8% of underlying profit before tax (2019: 5.1%). Cost synergies relating to Speirs & Jeffrey amounted to £5.0 million in 2020, ahead of our target of £4.5 million. Our underlying operating margin was consistent with the prior year at 25.3% (2019: 25.5%). Underlying profit after tax was £71.6 million (2019: £71.1 million), which results in an underlying earnings per share of 133.3p (2019: 132.8p).

Profit before tax of £43.8 million (2019: £39.7 million) reflects a number of expected items, primarily in relation to the acquisition of Speirs & Jeffrey (S&J). S&J acquisition costs totalled £34.3 million (2019: £30.8 million) comprising of £32.3 million in relation to the first tranche of deferred consideration payments to the former shareholders of the business (treated as remuneration, given their continuing employment), and integration costs of £2.0 million. Basic earnings per share totalled 49.6p (2019: 50.3p).

Enhancing our investment proposition and services

One of the positives of remote working has been that it has provided more opportunity for digital client engagement. This has not only been through more screen-based contact with clients, but also by us taking advantage of the chance to distribute market commentaries and other marketing materials to a much wider client and adviser audience. Consistent historical investment in our research capability has translated into improved quality of output and enhanced coverage of overseas stocks. Investment performance was strong in the year with the Global Investment Performance Standards (GIPS) accredited performance as an average return of all risk levels combined, outperforming both the PIMFA and ARC indices over one, three and five years. Performance in our funds business across both single-strategy and multi-asset funds was also strong.

The quality of our core discretionary service continues to be recognised by our clients. In a recent Aon UK client experience survey, Rathbones was ranked number one for overall client satisfaction, including a number one ranking in 10 of the 14 survey KPIs, and achieved a net promoter score of 60% compared to a benchmark score of 38%. Rathbones was also named Private Client Asset Manager of the Year at the 2020 Citywealth Magic Circle Awards. Our scores as measured by Defaqto in the 2020 discretionary fund management (DFM) satisfaction study (based on feedback from adviser firms) showed strong improvements, but also recognised the need to improve our digital client lifecycle capability.

To that end, we launched our new web portal, known as 'MyRathbones' in December to a small number of clients. The portal provides clients with more holistic communication and online access options and will be rolled out fully towards the end of the first quarter of 2021, adding a version for advisers and a mobile app. 'MyRathbones' is the digital doorway into Rathbones, complementing the investment manager – client relationship and providing clients with a straightforward, flexible and safe experience for everyday tasks. We are adopting an agile approach for future enhancements with many planned for the remainder of 2021.

Rathbone Select Portfolio (RSP) was launched in the fourth quarter of 2020. RSP is a cost-effective execution-only investment management solution in circumstances where a bespoke discretionary service may not be appropriate. Clients can choose an appropriate risk-rated investment strategy, with each strategy delivered through a single Rathbone Multi-Asset Portfolio fund. RSP adds to our range of solutions for smaller value portfolios and will improve investment manager capacity as it is rolled out more widely in 2021.

During June 2020, we added two new funds to our Rathbone Multi-Asset Portfolio range, the Rathbone Multi-Asset Defensive Growth Portfolio and the Rathbone Multi-Asset Dynamic Growth Portfolio, providing advisers with cost-effective access to target return profiles across the risk spectrum.

Investing for growth and productivity

Our strategy includes a multi-pronged approach to delivering growth by adding investment manager capacity, investing in business development and specialist markets, driving sales to the adviser market and growing our financial planning capability.

In 2020 we welcomed 23 new investment professionals to Rathbones from a number of competitor firms (2019: 18), and all have settled in well. We are targeting a similar level of recruitment during 2021 to support growth, alongside an ongoing graduate recruitment and training programme. In 2020 we realigned remuneration for investment teams to have a much clearer line of sight to organic growth, recognising that other elements of awards encourage high service standards and client retention. We have also restructured how our Investment Management business is organised at a senior level with the creation of two dedicated managing director roles focussing firstly on growth and client service delivery, and secondly the development of our investment process and responsible business agenda.

Our intermediated distribution team, which oversees the provision of a new, integrated 'adviser as adviser' proposition to IFA firms, has been successful in building new relationships, onboarding a total of 58 new adviser firms during the year and bringing the total to 82 since launch in July 2019. At 31 December 2020 the amount of FUMA linked to an adviser was £9.9 billion (31 December 2019: £9.2 billion).

Another part of our growth strategy is serving specialised markets. We successfully completed the acquisition of a specialist team and £440 million of client assets in the Court of Protection sector from Barclays Wealth, increasing our assets to around £1.0 billion and making Rathbones the leading discretionary investment management firm in this area. Charity FUMA at 31 December 2020 reached £6.5 billion (2019: £6.1 billion) including the addition of several substantial mandates in the first half of 2020. Rathbones was named as Charity Investment Manager of the Year at the Citywealth Magic Circle Awards (Gold award) in November.

Our specialist ethical, sustainable and impact research team Rathbone Greenbank Investments (Greenbank) had £1.9 billion of funds under management at 31 December 2020 (2019: £1.6 billion) while our award-winning Ethical Bond Fund continues to deliver strong investment performance, growing by 40% to reach £2.1 billion at 31 December 2020 (2019: £1.5 billion). We have begun to leverage the expertise and experience of Greenbank more widely into our overall investment process, setting investment selection criteria, demonstrating active stewardship and building training and awareness.

Rathbone Funds plans to launch Rathbone Greenbank Multi-Asset Portfolios (RGMAPs) towards the end of the first quarter of 2021. The RGMAPS funds will be a range of four new risk-rated, risk-targeted, sustainable investment funds managed by Rathbones' acclaimed multi-asset team and supported by Greenbank. This proposition will underpin Rathbones' continued leadership in the fast-growing private client responsible investment market and presents an opportunity to add wider choice to our Rathbone Select Portfolio proposition.

Building our advice offering

Financial advice is an increasingly important part of our wealth proposition and we access the advice market in three ways: firstly, by providing discretionary fund management services to approximately 12,000 IFAs and their clients; secondly, an independent IFA network, Vision Independent Financial Planning (Vision) and; thirdly, via our in-house planning capability, Rathbone Financial Planning (RFP), that works alongside our investment teams. Through the combination of Vision and RFP we provide clients with access to 167 financial planners and paraplanners (2019: 165) working with investment teams across the country and advising on £3.6 billion of client funds (2019: £3.2 billion).

Speirs & Jeffrey

The acquisition of Speirs & Jeffrey has added considerable skills and capabilities to Rathbones as well as creating a leading market presence in Scotland. Clients have welcomed access to the full array of our services and deeper research capability. The majority of clients were transferred to our discretionary fee-only tariff on 1 October 2020 which substantially completed the alignment with the wider Rathbones group.

Deferred consideration to the vendors of Speirs & Jeffrey, as well as related incentivisation awards to other staff, is dependent on operational and financial targets being met by 31 December 2020 and 31 December 2021. The amount of qualifying funds under management for the year ended 31 December 2020 was £5.1 billion, exceeding the earn-out threshold of £4.5 billion. Under the terms of the sale and purchase agreement, this will result in the crystallisation of the first tranche of deferred consideration, payable in March 2021. This amount will be satisfied through the issuance of 881,737 new shares and using 421,722 existing owned shares.

Based on our current estimate, we expect that the P&L charge for the second tranche of deferred consideration and related incentivisation awards for the year ending 31 December 2021 will amount to £9 million. This will continue to depend on market conditions during 2021 as well as the further client conversion to qualifying funds under management.

At the time of the acquisition in 2018, we outlined the following financial targets for 2021: expected underlying EPS accretion from the acquisition of at least 8%, and an underlying return on investment of approximately 13%. Despite more challenging markets, as at 31 December 2020 we are on track to exceed both targets.

Inspiring our people

Our priority during the year was to ensure the safety and wellbeing of our people. During 2020 we have focused on employee engagement, offering multiple forums for our staff to interact together and share any concerns they have.

Worldwide events during 2020 highlighted the critical importance of addressing social imbalances. Our policy is to ensure that all employees and prospective employees are provided with equal opportunities. In 2020 we changed HR practices and offered some welcomed events and forums where diversity and inclusion issues could be explored.

Risk management

The COVID-19 pandemic increased our risk exposure in several areas, most notably our staff, our operations and the ability to service our clients. We have been agile in the management and mitigation of these risks.

We continued to focus on the management of potential cyber threats, cognisant of the increased frequency of cyber-attacks on our industry. We continue to invest in this area.

While a degree of uncertainty remains around a deal on financial services between the UK and the EU, there has not been a significant impact on our business model to date.

Outlook

Rathbones has had a successful year, despite the many challenges, which is testament to our brand strength, the quality of our client relationships, our people and the robustness and agility of our business model. Whilst we expect investment markets to remain volatile, our balance sheet is robust with a strong capital position. Our near-term focus is to continue executing our growth strategy to build our market share, through ongoing investment in the business with strict cost discipline, to emerge stronger after the challenges of the pandemic begin to subside.

Paul Stockton
Chief Executive

3 March 2021

Financial performance

Overview of financial performance

The group's financial performance for the year to 31 December 2020 remained strong during a turbulent year for financial markets.

Underlying profit before tax was £92.5 million (2019: £88.7 million) reflecting growth in total revenue, despite market conditions, and the continuation of investment in the strategic plans announced in October 2019. The underlying operating margin, which is calculated as the ratio of underlying profit before tax to underlying operating income, was 25.3% (2019: 25.5%).

Statutory profit before tax of £43.8 million in 2020 increased 10% from £39.7 million in 2019. This included planned costs of £32.3 million relating to the acquisition of Speirs & Jeffrey; which was higher than previous guidance following a very successful exercise to bring clients on our standard discretionary terms of business.

The board primarily considers underlying measures of income, expenditure and earnings when assessing the performance of the group. These are considered to be a better reflection of true business performance than reviewing results on a statutory basis only. These measures are also widely used by research analysts covering the group. A full reconciliation between underlying results and the closest IFRS equivalent is provided in Table 2.

Table 1. Group's overall performance

	2020 £m (unless stated)	2019 £m (unless stated)
Operating income (and underlying operating income[1])	**366.1**	348.1
Underlying operating expenses[1]	**(273.6)**	(259.4)
Underlying profit before tax[1]	**92.5**	88.7
Underlying operating margin[1]	**25.3%**	25.5%
Profit before tax	**43.8**	39.7
Effective tax rate	**39.0%**	32.2%
Taxation	**(17.1)**	(12.8)
Profit after tax	**26.7**	26.9
Underlying earnings per share[1]	**133.3p**	132.8p
Earnings per share	**49.6p**	50.3p
Dividend per share[2]	**72.0p**	70.0p
Return on capital employed (ROCE)	**5.3%**	5.7%
Underlying return on capital employed[1]	**13.6%**	14.2%

1. A reconciliation between the underlying measure and its closest IFRS equivalent is shown in table 2
2. The total interim and final dividend proposed for the financial year

COVID-19 pandemic

The uncertainty caused by the emergence of the COVID-19 pandemic during the early part of the year had a profound impact on financial markets and broader business conditions. The rapid falls in the value of Western financial markets from mid-February through to late March reduced the value of funds under management and administration (FUMA) and investment management fees. Following a small recovery at the end of March, markets then remained at these lower valuations for much of the year until the announcement of successful vaccine trials in November, at which point they recovered further, with the FTSE 100 Index ending the year c. 14% down on the start of the year.

Early in the pandemic, central banks cut interest rates further to provide additional support to the economy. The Bank of England reduced its base rate to 0.1%, which put further downward pressure on banking margins.

Like many financial services businesses, the group successfully transitioned almost its entire workforce to remote working arrangements during March and early April. This was enabled by leveraging our existing technology but was supported through the year by the group-wide roll out of portable IT solutions for all staff. Surplus existing technology is being reconditioned and donated to charities supporting disadvantaged children where possible.

The rapid adoption of technology-based solutions for communication and remote working across much of the developed world drove a significant rotation in the value of companies, in favour of technology-based companies and online retailers at the expense of hospitality, travel and traditional consumer-led businesses. This followed the impacts of the mandated restrictions on mobility and consequent falls in consumer income. This significant change in the relative value of entire sectors of investments drove significant transactional activity as investor portfolios were rebalanced.

The group did not need to make use of any of the Government schemes available to support businesses and their employees through the pandemic. Plans for investment were slowed temporarily at the peak of the downturn whilst the business assessed the financial outlook. Consequently, hiring activity has been slower, but not halted, than originally planned during the year.

The impacts of the pandemic on the credit quality of the group's loan and treasury books was very limited, reflecting the low appetite for credit risk in our investment and lending decisions. Client loans remain well covered by assets held in client portfolios. Treasury exposures are spread across highly rated counterparties, with the largest exposure (£1.8 billion at 31 December 2020) being to the Bank of England.

Underlying operating income

No adjustments have been made to operating income as reported under IFRS to calculate underlying operating income for 2020 or 2019.

Operating income increased 5.2% in 2020 to £366.1 million. This reflects a change in the mix of income as a result of the impacts of COVID-19 and, in the fourth quarter, adoption of standard tariffs for our discretionary and advisory services for clients who joined from Speirs & Jeffrey.

Fee income of £274.2 million in 2020 increased 5.4% compared to £260.2 million in 2019. Fees represented 74.9% of underlying operating income in 2020, which was in line with 2019. The resilience of fee income during the year reflects the impact of positive investment performance on the value of FUMA and strong growth in the Funds business.

Net commission income increased 21.9% to £62.3 million in 2020 (2019: £51.1 million). Commission income was high throughout the year as investment managers monitored and responded to changes in the outlook for companies and sectors as the effect of the pandemic developed throughout 2020. The transition of clients to fee-only tariffs in the fourth quarter reduced this impact slightly.

Net interest income decreased 48.8% to £8.4 million, reflecting the cut to the Bank of England's base rate in March.

Underlying operating expenses

Operating expenses increased from £308.4 million to £322.3 million during the year. Operating expenses are adjusted to exclude expenditure falling into the three categories explained under Table 2.

Underlying operating expenses increased by 5.5% to £273.6 million. This includes cost savings of some £5 million on travel, subsistence, events and entertainment related expenses as a result of the pandemic restrictions, partially offset by £0.8 million of expenses enabling remote working.

Regulation continued to drive cost growth with additional Financial Services Compensation Scheme levies adding £1.8 million to costs in 2020. Spend on our systems and infrastructure increased by £3.7 million in the year as we advanced our strategic plans to invest in our digital capability.

Planned additions to headcount in 2019 and 2020 and market-led salary increases increased fixed staff costs by 6.0% to £117.5 million. Of this, £1.0 million related to strategic investment in front office hires. This increase also includes synergies of £3.3 million realised following the integration of Speirs & Jeffrey. In total, average headcount increased by 1.7% to 1,535 in 2020. Fixed staff costs also include an additional accrual of £1.2 million for unused staff holiday entitlement as a result of the pandemic restrictions.

Total variable staff costs increased by 16.4% to £77.7 million. Growth in performance-based awards of £6.8 million reflects the high level of sales and profit in the Funds business, as well as the strong performance of our investment management client portfolios. The £4.1 million increase in the cost of other variable staff costs is driven by a number of specific charges in 2020 for share-based employment and other awards.

Alternative performance measures

Table 2. Reconciliation of underlying performance measures to closest equivalent IFRS measures

	2020 £m (unless stated)	2019 £m (unless stated)
Operating income (and underlying operating income)	**366.1**	348.1
Operating expenses	**(322.3)**	(308.4)
Charges in relation to client relationships and goodwill	**14.3**	15.9
Acquisition-related costs	**34.4**	33.1
Underlying operating expenses	**(273.6)**	(259.4)
Profit before tax	**43.8**	39.7
Underlying profit before tax[1]	**92.5**	88.7
Operating margin	**12.0%**	11.4%
Underlying operating margin[2]	**25.3%**	25.5%
Taxation	**(17.1)**	(12.8)
Tax on non-underlying expenses	**(3.8)**	(4.8)
Underlying taxation	**(20.9)**	(17.6)
Profit after tax	**26.7**	26.9
Underlying profit after tax[3]	**71.6**	71.1
Weighted average number of shares in issue	**53.7m**	53.6m
Earnings per share	**49.6**	50.3p
Underlying earnings per share[4]	**133.3**	132.8p
Underlying quarterly average total equity	**520.5**	498.9
ROCE	**5.3%**	5.7%
Underlying ROCE[5]	**13.6%**	14.2%

1. Underlying operating income less underlying operating expenses
2. Underlying profit before tax as a percentage of underlying operating income
3. Underlying profit before tax less underlying taxation
4. Underlying profit after tax divided by the weighted average number of shares in issue
5. Underlying profit after tax as a percentage of underlying quarterly average total equity

Charges in relation to client relationships and goodwill (note 8)

Client relationship intangible assets are recognised when we acquire a business or hire a team of investment managers. The charges associated with these assets represent the proportion of the cost of securing client contracts that is charged to profit or loss as amortisation each year over the estimated duration of the client relationships. The quantum of the accounting charge will vary depending on the terms of each individual acquisition or team hire and represents a significant non-cash profit and loss item. They have, therefore, been excluded from underlying profit, which represents largely cash-based earnings and more directly relates to the financial reporting period. Research analysts commonly exclude these costs when comparing the performance of firms in the wealth management industry.

Acquisition-related costs (note 5)

Acquisition-related costs are significant costs which arise from strategic investments to grow the business rather than its operating performance and are therefore excluded from underlying results.

They primarily represent deferred acquisition consideration and the costs of integrating acquired businesses into the group.

Deferred acquisition costs are generally significant payments that are capital in nature reflecting the transfer of ownership of the business. However, in accordance with IFRS 3, any deferred consideration payments to former shareholders of the acquired business who are required to remain in employment with the group must be treated as remuneration. This distorts the view of operational performance given by the statutory measure of profit.

During 2020, £32.3 million of deferred consideration payments for Speirs & Jeffrey (2019: £26.0 million) were charged to the income statement and are considered separately for executive remuneration purposes. A further £2.0 million of integration costs were also incurred in 2020.

Acquisition costs of £0.2 million were incurred in relation to the acquisition of the Personal Injury and Court of Protection business of Barclays Wealth (2019: £0.2 million).

The final payment in respect of the acquisition of Vision Independent Financial Planning and Castle Investment Solutions, which were completed on 31 December 2015, were made to the vendors at the end of 2019. These amounts represent the cost of payments to vendors of the business who remained in employment with the group.

Taxation

The corporation tax charge for 2020 was £17.1 million (2019: £12.8 million) (see note 6). The effective tax rate of 39.0% (2019: 32.1%) reflects the disallowable costs of deferred consideration payments for the acquisition of Speirs & Jeffrey. The effective tax rate in 2021 is expected to begin to trend back towards the statutory rate of tax, as the level of the disallowable cost for deferred consideration in 2021 is expected to be much lower. Thereafter, the group expects it to return to 1-2 percentage points above the statutory rate.

The previously planned reduction of corporation tax to 17% from 19% was reversed by the Government during 2020. Deferred tax balances have therefore been calculated at a rate of 19% (2019: 17%) where timing differences are forecast to unwind in future years. The budget on 3 March 2021 signalled an increase in the rate of corporation tax to 25% in 2023. We will reflect this rate in the deferred tax calculations when the change receives Royal Assent.

Basic earnings per share

Basic earnings per share for the year ended 31 December 2020 were 49.6p compared to 50.3p in 2019. This reflects the full impact of non-underlying charges in relation to the acquisition of Speirs & Jeffrey. On an underlying basis, earnings per share were 133.3p in 2020, compared to 132.8p in 2019 (see note 12).

Dividends

We operate a generally progressive dividend policy.

In determining the level of any proposed dividend, the board has regard to current and forecast financial performance. Any proposal to pay a dividend is subject to compliance with:

- the Companies Act, requires that the company must have sufficient distributable reserves to pay the dividend; and
- regulatory capital requirements, which require the group to maintain at least a minimum level of own funds.

The company's distributable reserves are primarily dependent on:

- the level of profits earned by the company, including distributions received from trading subsidiaries (some of which are subject to minimum regulatory capital requirements themselves); and
- actuarial changes in the value of the pension schemes that are recognised in the company's other comprehensive income, net of deferred tax.

At 31 December 2020 the company's distributable reserves were £93.7 million (2019: £72.0 million).

In setting the proposed dividend for 2020, the board has considered the group's performance in 2020 and the strong balance sheet position, balanced with the need to continue our investment programme and the ongoing uncertainty in the economic outlook. As a result, the board is proposing a final dividend for 2020 of 47p; resulting in a full year dividend of 72p (an increase of 2p on 2019).

The proposed full year dividend is covered 0.7 times by basic earnings and 1.9 times by underlying earnings.

Capital expenditure

Overall, capital expenditure of £11.7 million in 2020 was consistent with levels spent in 2019. Spend on regulatory driven projects and property improvements reduced by a total of £1.3m, whilst the same amount was re-invested in technology solutions to enable remote working for our employees.

Underlying return on capital employed

The board monitors the underlying return on capital employed (ROCE) as a key performance measure, which forms part of the assessment of management's performance for remuneration purposes. For monitoring purposes, underlying ROCE is defined as underlying profit after tax expressed as a percentage of quarterly average total equity across the year.

Assessment of underlying return on capital is a key consideration for all investment decisions, particularly in relation to acquired growth.

In 2020, underlying ROCE was 13.6% (2019: 14.2%). Quarterly average total equity increased by £25.6 million in 2020 compared to 2019, reflecting growth in retained earnings.

Outlook

The group's profitability remains closely linked with the performance of global investment markets and UK interest rates.

We continue to work to deliver on our medium-term strategy. As we enter year two of our investment plan, momentum will increase in the investment in our people and digital solutions. These investments will enrich the client experience and support process efficiency; which, over the medium term, will drive the next phase of growth. Consequently, during the next two to three years, we will continue to maintain a mid 20s underlying operating margin.

Acquisition synergies will continue to yield a full year revenue impact in 2021 following the adoption of standard tariffs for clients from Speirs & Jeffery from the last quarter of 2020, along with further cost synergies of approximately £0.4m, adding to the £5m delivered in 2020.

Staff costs in 2021 will reflect salary inflation, including promotions, of approximately 1.5%, in addition to the full impact of hiring activity in 2020 and further joiners planned in 2021 in support of the strategic initiatives.

Announcements from the Financial Services Compensation Scheme in January 2021 signal the group's share of levies are not expected to reduce and could even increase again in 2021. We await further information.

We will continue to maintain our cost discipline, investing as market conditions allow to support our growth strategy and ensure that our infrastructure supports the business and manages operational risks appropriately.

Other financial impacts

Final deferred consideration payments to former shareholders of Speirs & Jeffrey will be calculated at the end of 2021. The amounts payable are conditional on performance against certain operational targets. We currently expect to recognise a non-underlying charge of approximately £9 million in 2021 in relation to these deferred payments.

Segmental review

The group is managed through two key operating segments, Investment Management and Unit Trusts.

Investment Management

The results of the Investment Management segment described below include the trading results of Rathbone Trust Company and Vision Independent Financial Planning.

Investment Management income is largely driven by revenue margins earned from funds under management and administration. Revenue margins are expressed as a basis point return, which depends on a mix of tiered fee rates, commissions charged for transactions undertaken on behalf of clients and the interest margin earned on cash in client portfolios and client loans.

Year-on-year changes in the key performance indicators for Investment Management are shown in table 3.

Table 3. Investment Management – key performance indicators

	2020	2019
Funds under management and administration at 31 December[1]	**£44.9bn**	£43.0bn
Underlying rate of net organic growth in Investment Management funds under management and administration[1]	**0.1%**	-1.5%
Underlying rate of total net growth in Investment Management funds under management and administration[1]	**1.4%**	-0.9%
Average net operating basis point return[2]	**72.7 bps**	68.2 bps
Number of Investment Management clients ('000)	**61**	60
Number of investment managers	**304**	297

1. See table 4 (percentages calculated on unrounded figures)
2. See table 8

Funds under management and administration

Investment Management funds under management and administration increased by 4.4% to £44.9 billion at 31 December 2020, with growth and investment performance offsetting lower market levels at the end of the year.

Despite the impacts of the pandemic, Investment Management has continued to attract new clients both organically and through acquisitions. The level of client losses in 2020 reduced as the impact of investment manager departures in recent years subsided.

During 2020, the total number of investment managers increased to 304 at the end of the year, from 297 at the end of 2019. The total number of clients (or groups of closely related clients) at the end of the year was approximately 61,000 (2019: 60,000).

Chart 1. Investment Management – number of clients and investment managers

Table 4. Investment Management – funds under management and administration

	2020 £bn	2019 £bn
As at 1 January	**43.0**	38.5
Inflows	**3.9**	3.5
organic[1]	**3.3**	3.3
acquired[2]	**0.6**	0.2
Outflows[1]	**(3.3)**	(3.9)
Market adjustment[3]	**1.3**	4.9
As at 31 December	**44.9**	43.0
Net organic new business[4]	**0.0**	(0.6)
Underlying rate of net organic growth[5]	**0.1%**	-1.5%
Underlying rate of total net growth[6]	**1.4%**	-0.9%

1. Value at the date of transfer in/(out)
2. Value at date of acquisition
3. Represents the impact of market movements and investment performance
4. Organic inflows less outflows
5. Net organic new business as a percentage of opening funds under management and administration
6. Net organic new business and acquired inflows as a percentage of opening funds under management and administration

Gross organic inflows of £3.3 billion remained resilient at 7.7% of opening funds under management and administration. 54% of total gross organic inflows related to existing client relationships. This represents a good performance considering the prominence of face-to-face sales in our business model.

Acquired inflows of £0.6 billion in 2020 reflected the successful acquisition of the Personal Injury and Court of Protection assets from Barclays Wealth and funds introduced by teams who recently joined the group on an earn-out arrangement.

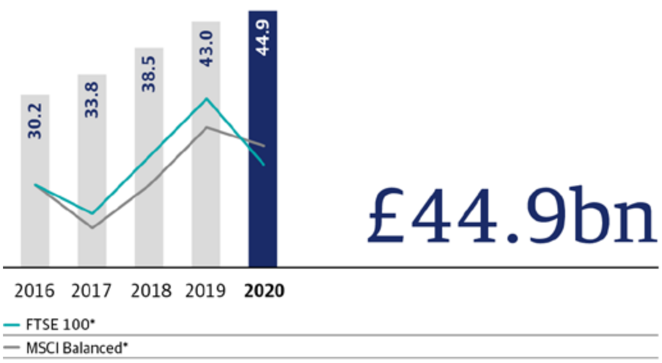
Outflows of funds under management and administration were 7.7% of the opening balance (2019: 10.1%). Of this, approximately 40% related to accounts that were closed with the remainder being drawings from capital to supplement income or for inter-generational transfers. The decrease on 2019 reflects a much-reduced impact of recent investment manager departures on closed accounts.

As a result, total Investment Management new business was £0.6 billion during 2020, representing an increase by 1.4% of opening funds under management and administration (2019: net total reduction of 0.9%).

2020 was another volatile year for equity and bond markets, with the impacts of the emerging pandemic, the US election and the announcement of a Brexit trade deal providing a range of conflicting stimuli to investment markets. Sentiment improved markedly in the fourth quarter, with the announcement of effective vaccines providing some hope for a faster return to stability. Reflecting these factors, the MSCI PIMFA Balanced Index finished the year largely unchanged from its opening level.

The average investment return across all Investment Management client portfolios, after all fees, was +3.4%, which outperformed the PIMFA index by 3.5%. The outperformance was largely driven by US and Worldwide Equities, as the release of positive economic data combined with elevated excess cash levels propelled global indices higher, which attracted significant momentum over time. This meant our conviction in highly cyclical growth names performed particularly strongly with Technology, Sustainability and Smaller Cap holdings leading the way. Overall company performance was also slightly ahead of the Private Client Indices published by ARC.

Chart 2. Investment Management – funds under management and administration five year growth (£bn)



* Index figures show how funds under management and administration would have changed between 2016 and 2020 if they had tracked each index

2020 was a strong year for our specialist teams. Charity funds under management and administration continued to grow strongly and reached £6.5 billion at 31 December 2020, up 6.6% from £6.1 billion at the start of the year. The Personal Injury and Court of Protection business ended 2020 with £1.0 billion of funds under management and administration. Rathbone Greenbank Investments grew funds under management and administration nearly 19% to £1.9 billion at 31 December 2020.

As at 31 December 2020, Vision Independent Financial Planning advised on client assets of £2.2 billion, up 1.5% from 2019.

Table 5. Investment Management – service level breakdown

	2020 £bn	2019 £bn
Direct	**33.7**	31.0
Financial adviser linked	**9.3**	8.7
Total discretionary	**43.0**	39.7
Non-discretionary investment management	**1.4**	2.6
Execution only	**2.7**	2.4
Gross Investment Management FUMA	**47.1**	44.7
Discretionary wrapped funds[1]	**(2.2)**	(1.7)
Total Investment Management FUMA	**44.9**	43.0

1. Holdings of the group's mutual funds in Investment Management client portfolios and mutual funds for which the management of the assets is undertaken by Investment Management teams; the corresponding funds under management and administration is reported within Funds

During 2020, clients who joined as part of the acquisition of Speirs & Jeffrey converted some £1.0 billion of funds under administration from non-discretionary to discretionary mandates.

Financial performance

Table 6. Investment Management – financial performance

	2020 £m	2019 £m
Net investment management fee income[1]	**230.3**	224.1
Net commission income	**62.3**	51.1
Net interest income	**8.4**	16.4
Fees from advisory services[2] and other income	**19.6**	19.3
Underlying operating income	**320.6**	310.9
Underlying operating expenses[3]	**(241.2)**	(232.5)
Underlying profit before tax	**79.4**	78.4
Underlying operating margin[4]	**24.8%**	25.2%

1. Net investment management fee income is stated after deducting fees and commission expenses paid to introducers
2. Fees from advisory services includes income from trust, tax and financial planning services (including Vision)
3. See table 9
4. Underlying profit before tax as a percentage of underlying operating income

The effect of the pandemic on investment markets and the wider economy resulted in a change in the mix of revenues in 2020.

Lower average funds under management and administration levels on our principal charging dates during 2020 (see table 7) weighed on net investment management fee income for the first three quarters. Strong investment performance and the repricing of mandates to a fee-only rate card for clients who joined from Speirs & Jeffrey in the fourth quarter offset this; and net investment management fee income increased by 2.8% to £230.3 million in 2020.

Table 7. Investment Management – average funds under management and administration

	2020 £bn	2019 £bn
Valuation dates for billing		
– 5 April	**35.9**	41.4
– 30 June	**41.3**	42.5
– 30 September	**41.8**	42.2
– 31 December	**44.9**	43.0
Average	**41.0**	42.3
Average FTSE 100 level[1]	**5,978**	7,456

1. Based on the corresponding valuation dates for billing

Net commission income increased 21.9% to £62.3 million in 2020, as the impact of the pandemic on economic prospects in various sectors led to a substantial rotation from value stocks to growth stocks. This drove increased transactional activity as investment managers rebalanced client portfolios to reflect the change in outlook.

The cut in the Bank of England base rate to 0.1% in March 2020 reduced the margin available on our treasury book and net interest income consequently decreased 48.7% to £8.4 million in 2020.

The investment management loan book increased to £158 million at the end of 2020 (2019: £132 million) and contributed £3.4 million to net interest income (2019: £4.0 million). Also included in net interest income is £1.3 million (2019: £1.3 million) of interest payable on the group's Tier 2 notes, which are callable annually in August, and a charge of £3.4 million in relation to the group's premises leases (2019: £3.6 million).

Table 8. Investment Management – revenue margin

	2020 bps	2019 bps
Basis point return[1] from:		
– fee income	**56.2**	52.9
– commission	**15.2**	12.1
– interest	**1.3**	3.2
Basis point return on funds under management and administration	**72.7**	68.2

1. Underlying operating income (see table 6), excluding interest on own reserves, interest payable on Tier 2 notes issued, interest payable on lease assets, fees from advisory services and other income, divided by the average funds under management and administration on the quarterly billing dates (see table 7). Speirs & Jeffrey funds under management and administration have been included pro rata for the period of ownership in 2018.

As a result of the factors described above, the average net operating basis point return on funds under management and administration has increased by 4.5 bps to 72.7 bps in 2020.

Fees from advisory services and other income increased marginally to £19.6 million, reflecting the impacts of the pandemic on growth in our complementary services.

Underlying operating expenses in Investment Management for 2020 were £241.2 million, an increase of 3.7% compared to 2019. This is highlighted in table 9.

Table 9. Investment Management – underlying operating expenses

	2020 £m	2019 £m
Staff costs[1]		
– fixed	**83.7**	78.6
– variable	**56.4**	49.7
Total staff costs	**140.1**	128.3
Other operating expenses	**101.1**	104.2
Underlying operating expenses	**241.2**	232.5
Underlying cost/income ratio[2]	**75.2%**	74.8%

1. Represents the costs of investment managers and teams directly involved in client-facing activities
2. Underlying operating expenses as a percentage of underlying operating income (see table 5)

Fixed staff costs of £83.7 million increased by 6.5% year-on-year. Synergies of £3.3 million following the integration of Speirs & Jeffrey were offset by an 8% growth in headcount and market-driven salary inflation. Incremental accruals of £1.0 million were also recognised for unused holiday entitlement as a result of the pandemic.

Variable staff costs totalled £56.4 million in 2020, an increase of £6.7 million on 2019. This principally reflects a higher charge for growth-based awards following strong investment performance in 2020 as well as the cost of staff withdrawing from the Save As You Earn scheme and awards for new investment management teams.

Other operating expenses of £101.1 million include property, depreciation, settlement, IT, finance and other central support services costs.

Savings in the year of approximately £5 million arose from the impact of the pandemic on entertaining, travel, events and subsistence spend, as well as reduced use of the group's office space. The total cost for 2020 also includes the impact of £1.7 million of synergies from the Speirs & Jeffrey integration.

The savings were partially offset by additional levies for the Financial Services Compensation Scheme, which increased by £1.6 million in 2020.

Unit Trusts

Table 10. Unit Trusts – funds

	2020 £m	2019 £m
Rathbone Global Opportunities Fund	**3,202**	1,858
Rathbone Ethical Bond Fund	**2,088**	1,495
Rathbone Multi-Asset Portfolios	**1,714**	1,134
Rathbone Income Fund	**811**	1,078
Offshore funds	**578**	517
Rathbone High Quality Bond Fund	**283**	210
Rathbone Active Income Fund for Charities	**227**	207
Rathbone Strategic Bond Fund	**204**	203
Rathbone Core Investment Fund for Charities	**129**	121
Rathbone UK Opportunities Fund	**49**	47
Rathbone Global Sustainability Fund	**44**	11
Other funds	**491**	557
	9,820	7,438

Unit Trusts' financial performance is principally driven by the value and growth of funds under management. Year-on-year changes in the key performance indicators for Unit Trusts are shown in table 11.

Table 11. Unit Trusts – key performance indicators

	2020	2019
Funds under management at 31 December[1]	**£9.8bn**	£7.4bn
Underlying rate of net growth in Unit Trusts funds under management[1]	**20.1%**	16.7%
Underlying profit before tax[2]	**£13.1m**	£10.3m

1. See table 12
2. See table 14

Funds under management

Net retail sales in the asset management industry totalled approximately £30.8 billion in 2020, as reported by the Investment Association (IA), up around £24.3 billion on 2019. Industry-wide funds under management increased 8.5% to £1.4 trillion at the end of the year.

Globally, equities was the top seller in 2020 at £10.4 billion - a very significant increase on the £2.9 billion outflow from equities in 2019; although UK equities were a notable exception to this, with net outflows in the year. Two-thirds of the total industry inflows came in November and December, showing the significant response to the news of a vaccine and the resulting boost to stock market returns. The IA Global sector (containing Rathbone Global Opportunities Fund and Rathbone Global Sustainability Fund) was the highest selling equity sector with annual flows of £8.2 billion.

The positive momentum in sales accelerated in 2020, with gross sales up 56.5% in the year to £3.6 billion. Redemptions also increased in the year, particularly in March when investors initially retreated from investment markets, totalling £2.1 billion for the full year. As a result, net inflows of £1.5 billion for the year were up 67% on £0.9 billion in 2019. Rathbone Unit Trust Management consistently ranked in the top 10 for net UK sales throughout the year according to the quarterly Pridham Sales Reports.

Net inflows continued to be spread across the range of funds. The Multi-Asset Portfolios, Global Opportunities Fund and Ethical Bond Fund continued to attract particularly strong net flows in the year.

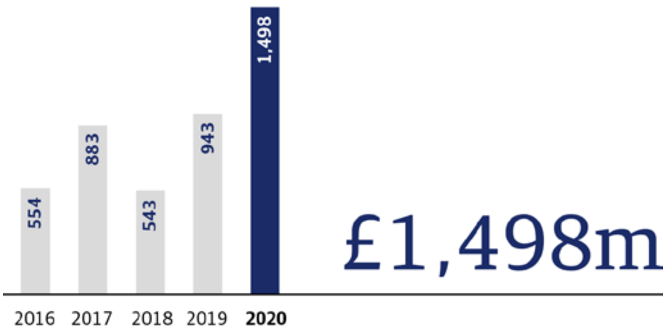
Unit Trusts funds under management closed the year up 32.4% at £9.8 billion (see table 12).

Table 12. Unit Trusts – funds under management

	2020 £bn	2019 £bn
As at 1 January	**7.4**	5.6
Net inflows	**1.5**	0.9
– inflows[1]	**3.6**	2.3
– outflows[1]	**(2.1)**	(1.4)
Market adjustments[2]	**0.9**	0.9
As at 31 December	**9.8**	7.4
Underlying rate of net growth[3]	**20.1%**	16.7%

1. Valued at the date of transfer in/(out)
2. Impact of market movements and relative performance
3. Net inflows as a percentage of opening funds under management

Chart 3. Unit Trusts - annual net flows (£m)



The Ethical Bond and Global Opportunities funds maintained their excellent long-term track records and both finished in the first quartile for performance, measured over three and five years. The UK Opportunities Fund ended the year with top decile performance for 2020 and an improved long-term track record. The multi-asset funds similarly beat their benchmarks and did well against their peers.

UK Income funds were hit by the large cuts in dividends by UK stocks as a result of the pandemic, and the Income Fund cut its dividend in the year by 20% (compared to c.40% cut for the FTSE All Share).

The High Quality Bond Fund posted good returns over the year, performing well against its cash-plus based benchmark.

The more defensively positioned Strategic Bond Fund recovered much of the poorer short-term performance measured over the prior year.

Long term performance for our retail funds remains strong and the funds are performing in line with expectations and their benchmarks.

Table 13. Unit Trusts – performance[1, 2]

2020/(2019) Quartile ranking[3] over	1 year	3 years	5 years
Rathbone Ethical Bond Fund	2 (1)	1 (1)	1 (1)
Rathbone Global Opportunities Fund	1 (1)	1 (1)	1 (1)
Rathbone Global Sustainability Fund[4]	1 (-)	- (-)	- (-)
Rathbone Income Fund	2 (3)	2 (3)	3 (2)
Rathbone Strategic Bond Fund	2 (4)	2 (2)	2 (2)
Rathbone UK Opportunities Fund	1 (2)	2 (3)	2 (2)

1. Quartile ranking data is sourced from FE Trustnet
2. Excludes multi-asset funds (for which quartile rankings are prohibited by the Investment Association (IA)), High Quality Bond Fund, which has no relevant peer group against which to measure quartile performance, non-publicly marketed funds and segregated mandates
3. Ranking of institutional share classes at 31 December 2020 and 2019 against other funds in the same IA sector, based on total return performance, net of fees (consistent with investment performance information reported in the funds' monthly factsheets)
4. Rathbone Global Sustainability Fund was launched on 19 July 2018, therefore performance figures for periods beyond one year are not available. Over the period since launch, the fund is ranked in the 1st quartile.
5. Funds included in the above table account for 65% of the total FUM of the Unit Trusts business

As at 31 December 2020, 97% of holdings in Unit Trusts' retail funds were in institutional units (31 December 2019: 95%).

During the year, the total number of investment professionals in Unit Trusts increased to 18 at 31 December 2020 from 15 at the end of 2019.

Financial performance

Unit Trusts' income is primarily derived from annual management charges, which are calculated on the daily value of funds under management, net of rebates payable to intermediaries.

Table 14. Unit Trusts – financial performance

	2020 £m	2019 £m
Net annual management charges	**43.9**	36.1
Net dealing profits	**0.0**	0.2
Interest and other income	**1.5**	0.9
Underlying operating income	**45.4**	37.2
Underlying operating expenses[1]	**(32.3)**	(26.9)
Underlying profit before tax	**13.1**	10.3
Operating % margin[2]	**28.9%**	27.7%

1. See table 15
2. Underlying profit before tax divided by underlying operating income

Net annual management charges increased 21.6% to £43.9 million in 2020, driven principally by the rise in average funds under management. Net annual management charges as a percentage of average funds under management fell to 54 bps (2019: 56 bps) reflecting the increased proportion of holdings in institutional units and the continued growth in the fixed income mandate funds.

Underlying operating income as a percentage of average funds under management and administration fell to 55 bps in 2020 from 56 bps in 2019 for the same reasons.

Table 15. Unit Trusts – underlying operating expenses

	2020 £m	2019 £m
Staff costs		
– Fixed	**4.1**	3.8
– Variable	**12.0**	8.7
Total staff costs	**16.1**	12.5
Other operating expenses	**16.2**	14.4
Underlying operating expenses	**32.3**	26.9
Underlying cost/income ratio[1]	**71.1%**	72.3%

1. Underlying operating expenses as a percentage of underlying operating income (see table 14)

Fixed staff costs of £4.1 million for the year ended 31 December 2020 were 7.9% higher than 2019. This reflects salary inflation and growth in headcount in response to regulatory changes and growth in the business.

Variable staff costs of £12.0 million were 37.9% higher than 2019 as a result of growth in profit and the higher value of gross sales, which drove increases in sales commissions.

Other operating expenses have increased by 12.5% to £16.2 million in 2020. Growth in administration costs of £0.6 million, driven by higher levels of funds under management and sales, was contained by negotiation of more competitive rates with third-party service providers early in the year. Regulatory costs also grew by £0.3 million, reflecting the growth in levies for the Financial Services Compensation Scheme.

Financial position

Table 16. Group's financial position

	2020 £m (unless stated)	2019 £m (unless stated)
Own funds:		
– Common Equity Tier 1 ratio[1]	**23.5%**	22.0%
– Total Own Funds ratio[2]	**24.3%**	23.3%
– Total equity	**513.8**	485.4
– Tier 2 subordinated loan notes[3]	**19.8**	19.9
– Total risk exposure amount	**1,247.8**	1,209.0
– Leverage ratio[4]	**9.2%**	8.3%
Other resources:		
– Total assets	**3,370.6**	3,398.7
– Treasury assets[5]	**2,721.1**	2,817.1
– Investment management loan book	**158.0**	132.0
– Intangible assets from acquired growth[6]	**218.0**	214.9
– Tangible assets and software[7]	**28.0**	28.4
Liabilities:		
– Due to customers[8]	**2,561.8**	2,668.6
– Net defined benefit pension liability	**9.8**	8.0

1. Common Equity Tier 1 capital as a proportion of total risk exposure amount
2. Total own funds (see table 17) as a proportion of total risk exposure amount
3. Represents the carrying value of the Tier 2 loan notes
4. Common Equity Tier 1 capital as a percentage of total assets, excluding intangible assets, plus certain off balance sheet exposures
5. Balances with central banks, loans and advances to banks and investment securities
6. Net book value of acquired client relationships and goodwill (note 8)
7. Net book value of property, plant and equipment and computer software
8. Total amounts of cash in client portfolios held by Rathbone Investment Management as a bank

Own funds

Rathbones is classified as a banking group for regulatory capital purposes and is therefore required to operate within the restrictions on capital resources and banking exposures prescribed by the Capital Requirements Regulation, as applied in the UK by the Prudential Regulation Authority (PRA).

At 31 December 2020, the group's regulatory own funds (including verified profits for the year) were £304 million (2019: £282 million).

Table 17. Regulatory own funds

	2020 £m	2019 £m
Share capital and share premium	**218.0**	213.8
Reserves	**342.6**	313.6
Less:		
Own shares	**(46.7)**	(42.0)
Intangible assets[1]	**(220.7)**	(218.9)
Common Equity Tier 1 own funds	**293.2**	266.5
Tier 2 own funds	**10.7**	15.7
Total own funds	**303.9**	282.2

1. Net book value of goodwill, client relationship intangibles and software is deducted directly from own funds, less any related deferred tax

Common Equity Tier 1 (CET1) own funds increased by £26.5 million during 2020, due to the inclusion of verified retained profits for the 2020 financial year.

The CET1 ratio was 23.5%, an increase on the 22.0% reported at the previous year end. Our consolidated CET1 ratio remains higher than the banking industry norm, reflecting the low-risk nature of our banking activity.

The leverage ratio was 9.2% at 31 December 2020, compared to 8.3% at 31 December 2019. The leverage ratio represents our CET1 capital as a percentage of our total assets, excluding intangible assets, plus certain off balance sheet exposures. The ratio has increased during the year in line with the increase in CET1 capital.

The business is primarily funded by equity, but also supported by £20 million of 10 year Tier 2 subordinated loan notes. The notes introduce a small amount of gearing into our balance sheet as a way of financing future growth in a cost-effective and capital-efficient manner. They are repayable in August 2025, with a call option for the issuer annually each August. Interest is payable at a fixed margin of 4.375% over six-month LIBOR. As they are now within 5 years of their maturity date, they are amortised on a straight-line basis for capital eligibility purposes over these last 5 years.

The consolidated balance sheet total equity was £514 million at 31 December 2020, up 5.9% from £485 million at the end of 2019, primarily reflecting the retained profits for the year.

Own funds and liquidity requirements

As required under PRA rules, we perform an Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) annually, which include performing a range of stress tests to determine the appropriate level of regulatory capital and liquidity that we need to hold. In addition, we monitor a wide range of capital and liquidity statistics on a daily, monthly or less frequent basis as required. Surplus capital levels are forecast on a monthly basis, taking account of proposed dividends and investment requirements, to ensure that appropriate buffers are maintained. Investment of proprietary funds is controlled by our treasury department.

We are required to hold capital to cover a range of own funds requirements.

Table 18. Group's own funds requirements[1]

	2020 £m	2019 £m
Credit risk requirement	**46.9**	46.5
Market risk requirement	**0.6**	0.4
Operational risk requirement	**52.4**	49.8
Pillar 1 own funds requirement	**99.9**	96.7
Pillar 2A own funds requirement	**40.0**	39.8
Total Capital Requirement ('TCR')	**139.9**	136.5
Combined buffer:		
– capital conservation buffer (CCB)	**31.1**	30.2
– countercyclical capital buffer (CCyB)	**0.1**	11.3
Total Capital Requirement ('TCR') and Combined buffer	**171.1**	178.0

1. Own funds requirements stated above include the impact of trading results and changes to requirements and buffers that were known as at 31 December and which became effective prior to the publication of the preliminary results

Pillar 1 – minimum requirement for capital

Pillar 1 focuses on the determination of a total risk exposure amount (also known as 'risk-weighted assets') and expected losses in respect of the group's exposure to credit, counterparty credit, market and operational risks, and sets a minimum requirement for capital.

At 31 December 2020, the group's total risk exposure amount was £1,248 million (2019: £1,209 million).

Pillar 2 – supervisory review process

Pillar 2 supplements the Pillar 1 minimum requirement with firm-specific Pillar 2A requirements and a framework of regulatory capital buffers.

The Pillar 2A own funds requirement (which is set by the PRA and the calculation of which remains confidential with the PRA) reflects those risks, specific to the firm, which are not fully captured under the Pillar 1 own funds requirement. Our Pillar 2A own funds requirement was reviewed by the PRA during the year.

Pension obligation risk

The potential for additional unplanned capital strain or costs that the group would incur in the event of a significant deterioration in the funding position of the group's defined benefit pension schemes.

Interest rate risk in the banking book

The potential losses in the non-trading book resulting from interest rate changes or widening of the spread between Bank of England base rates and LIBOR rates.

Concentration risk

Greater loss volatility arising from a higher level of loan default correlation than is assumed by the Pillar 1 assessment.

The group is also required to maintain a number of regulatory capital buffers, all of which must be met with CET1 capital.

Capital conservation buffer (CCB)

The CCB is a general buffer, designed to provide for losses in the event of a stress, and represents 2.5% of the group's total risk exposure amount as at 31 December 2020.

Countercyclical capital buffer (CCyB)

The CCyB is designed to act as an incentive for banks to constrain credit growth in times of heightened systemic risk. The amount of the buffer is determined by reference to rates set by the FPC from time to time, depending on prevailing market conditions, for individual countries where the group has credit risk exposures.

The buffer rate is currently set at 0% for the UK. The group also has some small, relevant credit exposures in other jurisdictions, resulting in a weighted buffer rate of 0.01% of the group's total risk exposure amount as at 31 December 2020.

The surplus of own funds (including verified profits for the full year) over Total Capital Requirement and Combined buffer was £133 million, up from £104 million at the end of 2019.

Pillar 2B PRA buffer

The PRA also determines whether any incremental firm-specific buffer is required, in addition to the CCB and the CCyB. The PRA requires any such buffer to remain confidential between the group and the PRA.

In managing the group's regulatory capital position over the next few years, we will continue to be mindful of:

- future volatility in pension scheme valuations which affect both the level of CET1 own funds and the value of the Pillar 2A requirement for pension risk;
- regulatory developments; and
- the demands of future acquisitions which generate intangible assets and, therefore, directly reduce CET1 resources.

We keep these issues under constant review to ensure that any necessary capital-raising activities are carried out in a planned and controlled manner.

The group's Pillar 3 disclosures are published annually on our website (rathbones.com/investor-relations/results-and-presentations) and provide further details about regulatory capital resources and requirements.

Total assets

Total assets at 31 December 2020 were £3.4 billion (2019: £3.4 billion), of which £2.6 billion (2019: £2.7 billion) represents the investment in the money markets of the cash element of client portfolios that is held as a banking deposit.

Treasury assets

As a licensed deposit taker, Rathbone Investment Management holds our surplus liquidity on its balance sheet together with clients' cash. Cash in client portfolios as held on a banking basis of £2.6 billion (2019: £2.7 billion) represented 5.7% of total Investment Management funds under management and administration at 31 December 2020, compared to 6.2% at the end of 2019. Cash held in client money accounts was £5.5 million (2019: £5.7 million).

The treasury department of Rathbone Investment Management, reporting through the banking committee to the board, operates in accordance with procedures set out in a board-approved treasury manual and monitors exposure to market, credit and liquidity risk. It invests in a range of securities issued by a relatively large number of counterparties. These counterparties must be single-'A'-rated or higher by Fitch at the time of investment and are regularly reviewed by the banking committee.

During the year, the share of treasury assets held with the Bank of England reduced to £1.8 billion from £1.9 billion at 31 December 2019. Liquidity in client portfolios fell towards the end of the year and we increased our holdings in certificates of deposit by £50 million over the course of the year.

Loans to clients

Loans are provided as a service to Investment Management clients who have short- to medium-term cash requirements. Such loans are normally made on a fully secured basis against portfolios held in our nominee name, requiring two times cover, and are usually advanced for up to one year. In addition, charges may be taken on property held by the client to meet security cover requirements.

Our ability to provide such loans is a valuable additional service, for example, to clients who require bridging finance when buying and selling their homes.

Loans advanced to clients increased to £158.0 million at end of 2020 (2019: £132.0 million) as clients demand for bridging finance increased in favour of drawing down from investment portfolios at a time of market volatility.

Intangible assets

Intangible assets arise principally from acquired growth in funds under management and administration and are categorised as goodwill and client relationships. Intangible assets reported on the balance sheet also include purchased and developed software.

At 31 December 2020, the total carrying value of intangible assets arising from acquired growth was £218 million (2019: £215 million). During the year, client relationship intangible assets of £11.0 million were capitalised (2019: £5.3 million), including £6.9 million in relation to the Personal Injury and Court of Protection business of Barclays. Goodwill of £6.5 million was acquired during the year in relation to this acquisition (2019: £nil).

Client relationship intangibles are amortised over the estimated life of the client relationship, generally a period of 10 to 15 years. When client relationships are lost, any related intangible asset is derecognised in the year. The total amortisation charge for client relationships in 2020, including the impact of any lost relationships, was £14.3 million (2019: £15.4 million).

Goodwill, which arises from business combinations, is not amortised but is subject to a test for impairment at least annually. During the prior year, the goodwill relating to the trust and tax business was found to be impaired as the growth forecasts for that business have not kept pace with cost inflation. No goodwill was identified as impaired during the year. Further detail is provided in note 8.

Capital expenditure

During 2020, we have maintained the overall level of investment in the development of our systems and premises, with capital expenditure for the year totalling £11.7 million (2019: £11.6 million). Capital expenditure in 2020 included £1.4 million to facilitate remote working. The level of capital spend on regulatory driven projects and premises improvements reduced by a commensurate amount.

Total costs for the purchase and development of software were £7.9 million in the year (2019: £8.6 million) as work continued on the development of our digital capability.

Overall, new investment accounted for approximately 88% of total capital expenditure in 2020, compared with 84% in 2019, with the balance of total spend incurred for the maintenance and replacement of existing software and equipment.

Right-of-use assets

Following the adoption of IFRS 16, the group is required to recognise each lease with a term of more than 12 months as a right-of-use lease asset on its balance sheet, along with a corresponding financial liability representing its obligation to make future lease payments.

As at 1 January 2020, the group recognised right-of-use assets of £54.3 million, largely representing the leases for premises occupied by the group. During 2020, additions of £0.3 million were made.

Right-of-use assets are generally depreciated over the lease term (or the expected life of the asset, if shorter). The total depreciation charge for right-of-use assets in 2020 was £4.9 million.

Defined benefit pension schemes

We operate two defined benefit pension schemes, both of which have been closed to new members for several years. With effect from 30 June 2017, we closed both schemes, ceasing all future benefit accrual and breaking the link to salary.

At 31 December 2020 the combined schemes' liabilities, measured on an accounting basis, had increased to £165.4 million, up 4.0% from £159.1 million at the end of 2019, primarily reflecting the decrease in interest rates used to discount the liabilities during the year. The reported position of the schemes as at 31 December 2020 was a deficit of £9.8 million (2019: deficit of £8.0 million).

Triennial funding valuations form the basis of the annual contributions that we make into the schemes. Funding valuations of the schemes as at 31 December 2019 were completed during the year. Having reviewed the long-term plan for the schemes, we have agreed with the trustees a target to fund the schemes to a self-sufficient basis over the medium term. This targets a level of assets in the scheme sufficient to fund future cash flows from interest and maturities of the scheme assets, reducing the reliance on equity returns to meet the schemes' requirements. This will significantly reduce the volatility of the schemes and the future burden on the group. Reflecting this, we agreed a schedule of contributions totalling £25 million over the next six years. This schedule will be reviewed at the next triennial valuations, as at 31 December 2022.

Liquidity and cash flow

Table 19. Extracts from the consolidated statement of cash flows

	2020 £m	2019 £m
Cash and cash equivalents at the end of the year	**2,056.7**	2,148.0
Net cash inflows from operating activities	**32.0**	499.6
Net change in cash and cash equivalents	**(44.6)**	739.5

Fees and commissions are largely collected directly from client portfolios and a significant proportion of expenses are predictable. Consequently, we operate with a modest amount of working capital. Larger cash flows are principally generated from banking and treasury operations when investment managers make asset allocation decisions about the amount of cash to be held in client portfolios.

As a bank, we are subject to the PRA's ILAAP regime, which requires us to hold a suitable Liquid Assets Buffer to ensure that short-term liquidity requirements can be met under certain stressed scenarios. Liquidity risks are actively managed on a daily basis and depend on operational and investment transaction activity.

Cash and balances at central banks was £1.8 billion at 31 December 2020 (2019: £1.9 billion).

Cash and cash equivalents, as defined by accounting standards, includes cash, money market funds and banking deposits, which had an original maturity of less than three months. Consequently, cash flows include the impact of capital flows in treasury assets.

Net cash flows from operating activities reflect a £106.0 million decrease in banking client deposits (2019: £442.6 million increase), as a result of asset allocation decisions to reduce the proportion of funds under management and administration held as cash in clients' portfolios, reflecting market conditions at the year end.

Cash flows from investing activities also included a net outflow of £53.1 million from the purchase of certificates of deposit (2019: net inflow of £303.9 million), as we reduced the proportion of treasury assets held with the Bank of England.

The most significant non-operating cash flows during the year were as follows:

- outflows relating to the payment of dividends of £37.8 million (2019: £36.0 million);
- payments made (net of cash acquired) in business combinations of £12.0 million (2019: £nil);
- outflows relating to payments to acquire intangible assets (other than as part of a business combination) of £9.5 million (2019: £14.9 million); and
- £3.8 million of capital expenditure on tangible property, plant and equipment (2019: £3.5 million).

Risk management and control

Our approach to risk management continued to develop in 2020, and we have adapted to the impact COVID-19 has had on the firm. Our risk governance, processes and infrastructure ensured that risk management across the group was appropriate to existing and emerging challenges to the firm's strategic objectives and day-to-day activities. Our primary focus going into 2021 will be to continue managing risk effectively in accordance with our risk appetite and for the long term, to meet the expectations of all of our stakeholders.

Responding to COVID-19

We faced multiple risks arising from the COVID-19 pandemic. We focused on service to clients, the reliability of business operations and the wellbeing of our colleagues, although this required some agility as the risk profile changed. Overall, the firm has responded well so far, although we remain alert to future uncertainty and will adapt as required to the changing landscape. The board, executive and risk committees have been fully supportive and engaged throughout to ensure that our staff are protected, our operations are resilient and the risk of material disruption to our client services has been mitigated.

Risk culture

The risk culture embedded across the group continues to enhance the effectiveness of risk management and decision-making at all levels. The board sets the right tone, which supports a strong risk culture and, through our senior management team, encourages appropriate behaviours and collaboration on managing risk across the business. Risk management is part of everyone's day-to-day responsibilities and activities; it is linked to performance and development, as well as to the group's remuneration and reward schemes. Our approach creates an open and transparent working environment, encouraging employees to engage positively in risk management and support the achievement of our strategic objectives.

Risk appetite

Risk appetite is defined as the amount and type of risk the group is prepared to take or accept in pursuit of our long-term strategic objectives.

The board, executive committee and group risk committee regularly review and, at least annually, formally approve the group's risk appetite statement, ensuring it remains consistent with our strategy and objectives. Our appetite framework is aligned with the group's overall prudential requirements for strategic, financial and non-financial risk (conduct and operational), and specific appetite measures are set for each principal risk. Risks which have triggered key risk indicators or risk appetite measures are reported and escalated in accordance with our framework to the executive committee, group risk committee and the board as appropriate, so that risk mitigation can be reviewed and strengthened if needed.

In line with our strategy, the current economic outlook and the evolving regulatory landscape within the sector, the board remains committed to having a relatively low overall appetite for risk and ensuring that our internal controls mitigate risk to appropriate levels. The board recognises our performance is susceptible to fluctuations in investment markets and has the potential to bear losses from financial and operational risks from time to time, either as reductions in income or increases in operating costs.

Managing risk

The board is ultimately accountable for risk management and regularly considers the most significant risks and emerging threats to the group's strategy and objectives. In addition, the audit and group risk committees exercise further oversight of and challenge to existing risk management and internal control. The board delegates day-to-day responsibility for managing risk across the business to the chief executive and executive committee. Our executive risk committee provides further challenge to and oversight of financial and non-financial risks (conduct and operational risk), while the banking committee oversees financial risk management. Both committees meet monthly, reporting into both the executive committee and group risk committee.

Throughout the group, all employees have a responsibility for managing risk and adhering to our control framework.

Three lines of defence

We operate a three lines of defence model across the group to support governance and risk management. The comments below outline our expectations across the firm, with responsibility and accountability for risk management broken down as follows:

First line

Senior management, business operations and support functions are responsible for managing risks, by developing and maintaining effective internal controls to mitigate risk in line with risk appetite.

Second line

Risk, compliance and anti-money laundering functions maintain a level of independence from the first line and are responsible for providing oversight of and challenge to the first line's day-to-day management, including monitoring and reporting of risks to both senior management and governing bodies.

Third line

Our internal audit function is responsible for providing independent assurance to senior management, the board and board committees as to the effectiveness of the group's governance, risk management and internal controls.

Outside our internal lines of defence, external independent assurance is obtained, primarily through the annual statutory audit along with other ad hoc engagements which may be required during the year.

Identification of risks

Regular reviews are undertaken to ensure we identify and understand all relevant material risks which have the potential to impact future performance and the delivery of our strategic objectives and business priorities. We use a three-level hierarchical model and this year have enhanced our risk classification, so that it continues to reflect the current and future risk profile of the group. Our highest level of risk (Level 1) comprises business and strategic, financial, conduct and operational risks. Our next level (Level 2) contains 20 risk categories allocated to a Level 1 risk. Detailed risks (Level 3) are identified as sub-sets of Level 2 risks. Level 3 risks are captured and maintained within our group risk register.

We recognise that some Level 2 and Level 3 risks have features which need to be considered under more than one Level 1 risk, and our framework facilitates this through a system of primary and secondary considerations. Risk exposures and our overall risk profile are reviewed and monitored regularly, with risk owners, senior management and business units across the group considering the potential impact, existing internal controls and management actions required to mitigate the impact and likelihood of emerging issues and future events.

Risk assessment process

The board and senior management are actively involved in a continuous risk assessment process as part of our risk management framework, supported by the Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) work, which assesses the principal risks facing the group.

Across the year our risk assessment process considers both the impact and likelihood of risk events materialising which could affect the delivery of strategic goals and annual business plans. A top-down and bottom-up approach ensures that our assessment of Level 2 risk categories and detailed Level 3 risks is challenged and reviewed on a regular basis. The board, executive committee and executive risk committee receive regular reports and information from senior management, operational business units, risk oversight functions and specific risk committees to support this assessment.

We have a consistent approach to identifying and assessing our Level 3 risks on both an inherent and residual basis over a three-year period and against a number of different impact criteria, including financial, client, operations, reputation, strategy and regulation indicators. A residual risk exposure and overall risk profile rating of high, medium, low or very low is then derived for the three-year period including consideration of the internal control environment and/or insurance mitigation. The assessment of our control environment, undertaken by senior management within the firm, includes contributions from first, second and third line people, data, monitoring and/or assurance activity.

Senior management also maintain a watch list as part of our approach to identify and assess any current, emerging or future issues, threats, business developments and regulatory or legislative change, which will or could have the potential to impact the firm's current or future risk profile. Any material changes may require active risk management, usually through process changes or systems development. The group's risk profile, risk register and watch list are regularly reviewed by the executive, senior management, group risk committee and the board.

Stress tests include consideration of the impact of a number of severe but plausible events that could impact the business. The work also takes account of the availability and likely effectiveness of mitigating actions that could be taken to avoid or reduce the impact or likelihood of the underlying risks materialising.

The executive risk committee, executive committee, group risk committee and other key risk-focused committees consider the risk assessments and stress tests, providing challenge on their appropriateness, which is reported through the governance framework and ultimately considered by the board.

Profile and mitigation of principal risks

Our risks are classified hierarchically in a three-level model. Following a review of our risk taxonomy in 2020 we have established four Level 1 risks, 20 Level 2 risks and 53 Level 3 risks. This approach to managing risk is underpinned by an understanding of our current risk exposures and consideration of how risks change over time. Our risks form the basis of the group's risk register, and to identify and manage our principal risks, reviews take place with risk owners, senior management, business units and committees across the group. The firm's senior management and risk function conduct these reviews regularly during the year.

The group's underlying risk profile has fluctuated during this extraordinary year; however, ratings for the majority of Level 2 risks have stabilised, given our ability to respond and adapt to the challenges presented by the COVID-19 pandemic and the UK Government's actions impacting firms. We prioritised client service, operational resilience and employee wellbeing, adjusting our operating model and processes to ensure we continued to effectively manage client assets and focus on volatile investment markets. In addition, the firm has continually monitored and responded to the uncertainty implied by the potential for a hard Brexit at the end of the transition period. While a degree of uncertainty remains around a deal on financial services between the UK and EU, our business operating model has not been seriously impacted. We will however continue to monitor how the future longer-term relationship between the UK and EU evolves. The following table identifies the most important changes to risk ratings during the year.

Based upon our risk assessment processes and notwithstanding the impact on business and wider society of COVID-19, the board believes that the principal risks and uncertainties facing the group which could impact the delivery of our strategic objectives have been identified below. These risks reflect the continued focus in 2020 on our strategic initiatives, the sustainability of our business model and client suitability in general; and more specifically towards environmental and societal challenges, the ever-changing cyber threat landscape, operational resilience in relation to our suppliers, and the macroeconomic environment. The board remains as vigilant as ever to risks that arise from the longer-term impact of COVID-19 on our business, society and the economy, and also to regulatory risks that, in turn, may arise from the continuing development of law, regulation and standards in our sector.

Our overall risk profile and the control environment for principal risks are described below. The board receives assurance from first line senior management that the systems of internal control are operating effectively and from the activities of the second line and third line that there are no material control issues which would affect the board's view of its principal risks and uncertainties.

We include in the tables the potential impacts (I) the firm might face and our assessment of the likelihood (L) of each principal risk crystallising. These assessments take into account the controls in place to mitigate the risks. However, as is always the case, should a risk materialise, a range of outcomes (both in scale and type) might be experienced. This is particularly relevant for firms such as Rathbones where the outcome of a risk event can be influenced by market conditions as well as internal control factors.

We have used ratings of high, medium, low and very low in this risk assessment. We perceive as high-risk items those which have the potential to impact the delivery of strategic objectives, with medium-, low- and very low-rated items having proportionately less impact on the firm. Likelihood is similarly based on a qualitative assessment.

Emerging risks and threats

In 2020, we developed a new approach to monitor strategic risks and horizon threats. This was reviewed by the Board and the approach will be maintained in 2021.

Emerging risks, including legislative and regulatory change, which have the potential to impact the group and delivery of our strategic objectives, are monitored through our watch list. During the year, the executive committee continued to recognise and respond to a number of emerging risks and threats to the financial services sector as a whole and to our business.

The board and executive also recognise that actions will be required to better understand longer-term climate change risks, both physical and transitional, along with sustainability risks associated with our strategy, business model and operations. This will be an area of specific focus during 2021 and will include maintaining a climate change risk assessment as part of the wider risk management framework and process.

The group's view is that we can reasonably expect current market conditions and uncertainties to remain throughout 2021, given the implications of COVID-19 and Brexit. We are also monitoring the political discussion around Scottish independence. Other evolving risks remain stable and continue to include cyber threats, changing regulatory expectations and further scenarios potentially arising from geopolitical developments, along with continuing tensions and uncertainty around global trade.

Key changes to risk profile

Risk	Description of change	Risk change in 2020
Sustainability	This risk was developed in our taxonomy in 2020 and was defined as the risk that the business model does not respond in an optimal manner to changing market conditions, including environmental and social factors, such that sustainable growth, market share or profitability is adversely affected.	→
People	People risk increased in 2020 as a direct result of the pandemic. Although this has been mitigated by management action, and employee feedback during the year has been positive.	→
Information security and cyber	Although the external threat landscape continues to evolve, we continue to invest in improving our security posture, including staff awareness, preparedness and technology developments.	→
Suitability	Process improvements have been made in 2020, in part to simplify workflows as a result of COVID-19. Further enhancements are expected in 2021.	→
Third party supplier	This risk increased during 2020 as a result of the COVID-19 pandemic and Brexit, and also in part due to legislative changes which could have impacted on service. However, our key suppliers have been able to maintain service and together we have mitigated the risk of any material disruption to our operations.	↑

Principal risks

The most significant risks which could impact the delivery of our strategy and annual business plans are detailed below. The potential impacts (I) the firm might face and our assessment of the likelihood (L) of each principal risk crystallising are included in the table. Some of these risks increased at some stage in 2020, although they have since stabilised.

Level 2 risk	How the risk arises	Residual rating I	Residual rating L	Control environment
Credit The risk that one or more counterparties fail to fulfil contractual obligations, including stock settlement	This risk can arise from placing funds with other banks and holding interest-bearing securities. There is also a limited level of lending to clients	High	Low	– Banking committee and senior management oversight – Counterparty limits and credit reviews – Treasury policy and procedures – Client lending policy and procedures – Active monitoring of exposures – Annual ICAAP
Pension The risk that the cost of funding our defined benefit pension schemes increases, or their valuation affects dividends, reserves and regulatory own funds	This risk can arise through a sustained deficit between the schemes' assets and liabilities. A number of factors impact a deficit, including increased life expectancy, falling interest rates and falling asset values	High	Med	– Board, senior management and trustee oversight – Monthly valuation estimates – Triennial independent actuarial valuations – Investment policy – Senior management review and defined management actions – Annual ICAAP
Change The risk that the change portfolio does not support delivery of the group's strategy	This risk can arise if the business is too aggressive and unstructured in its change programme to manage project risks, or fails to make available the capacity and capabilities to deliver business benefits	High	Med	– Executive and board oversight of material change programmes – Transformation Office Programme Board oversight and delivery-focused operating model – Documented strategic and business change programmes – Dedicated change delivery function, use of internal and, where required, external subject matter experts – Two-stage assessment, challenge and approval of project plans – Documented project and change procedures
Sustainability The risk that the business model does not respond in an optimal manner to changing market conditions, including environmental and social factors, such that sustainable growth, market share or profitability is adversely affected	This risk can arise from strategic decisions which fail to consider the current operating environment, our stakeholders' expectations, or can be influenced by external factors such as environmental and social factors, material changes in regulation or legislation within the financial services sector	High	Med	– Board, executive and responsible business committee oversight – A documented strategy, including responsible investment policy – Annual business targets, subject to regular review and challenge – Regular reviews of pricing structure – Continued investment in the investment process, service standards and marketing – Trade body participation – Regular competitor benchmarking and analysis

Level 2 risk	How the risk arises	Residual rating I	Residual rating L	Control environment
Regulatory compliance and legal The risk of failure by the group or a subsidiary to fulfil its regulatory or legal requirements and comply with the introduction of new or updated regulations and laws	This risk can arise from failures by the business to comply with existing regulation or failure to identify and react to regulatory change	High	Med	– Board and executive oversight – Management oversight and active involvement with industry bodies – Compliance monitoring programme to examine the control of key regulatory risks – Separate anti-money laundering function with specific responsibility – Oversight of industry and regulatory developments – Documented policies and procedures – Staff training and development
Suitability The risk of an unsuitable client outcome either through service, investment mandate, investment decisions taken, investment recommendations made or portfolio or fund construction	This risk can arise through failure to appropriately understand the wealth management needs of our clients, or failure to apply suitable advice or investment strategies	High	Med	– Board, executive and general managers committee oversight – Investment governance and structured committee oversight – Management oversight and segregated quality assurance and performance teams – Performance measurement and attribution analysis – 'Know your client' (KYC) suitability processes – Weekly investment management meetings – Investment manager reviews through supervisor sampling – Compliance monitoring
Information security and cyber The risk of inappropriate access to, manipulation, or disclosure of, client or company-sensitive information	This risk can arise from the firm failing to maintain and keep secure sensitive and confidential data through its operating infrastructure, including the activities of employees, and through the management of cyber threats	High	Med	– Board and executive oversight – Data governance committee oversight – Information security policy, data protection policy and associated procedures – System access controls and encryption – Penetration testing and multi-layer network security – Training and employee awareness programmes – Physical security
People The risk of loss of key staff, lack of skilled resources or inappropriate behaviour or actions. This could lead to lack of capacity or capability threatening the delivery of business objectives, or to behaviour leading to complaints, litigation or regulatory action	This risk can arise across all areas of the business as a result of resource management failures or from external factors such as increased competition or material changes in regulation	High	Med	– Board and executive oversight – Succession and contingency planning – Transparent, consistent and competitive remuneration schemes – Contractual clauses with restrictive covenants – Continual investment in staff training and development – Employee engagement survey – Appropriate balanced performance measurement system – Culture monitoring and reporting

Level 2 risk	How the risk arises	Residual rating I	Residual rating L	Control environment
Third-party supplier The risk of one or more third-party suppliers failing to provide or perform authorised and/or outsourced services to standards expected by the group, impacting the ability to deliver core services. This includes intra-group outsourcing activity	This risk can arise when the firm does not have appropriate governance and oversight of its supplier relationships, in particular those considered key and material to the operational resilience of business services provided to clients or investors	High	Med	– Board and executive oversight – Senior dedicated relationship managers – Supplier contracts and defined service level agreements/KPIs – New supplier due diligence and approval process – Close liaison and regular service review meetings – Documented procedures

Assessment of the company's prospects

The board reviews its strategic plan annually. This, alongside the ICAAP and ILAAP, forms the basis for capital planning which is discussed periodically with the Prudential Regulation Authority (PRA).

During the year, the board has considered a number of stress tests and scenarios which focus on material or severe but plausible events that could impact the business and the company's financial position. The board also considers the plans and procedures in place in the event that contingency funding is required to replenish regulatory capital. On a monthly basis, critical capital projections and sensitivities have been refreshed and reviewed, taking into account current or expected market movements and business developments.

The board's assessment considers all the principal risks identified by the group and assesses the sufficiency of our response to all Pillar 1 risks (defined as credit, market and operational risks) to the required regulatory standards. In addition, the crystallisation of the following events were focused on for enhanced stress testing: an equity market fall, a loss of business/competitive threat, business expansion, pension obligation and a combined market fall and reputational event. The economic and commercial impacts of the global pandemic on the prospects of the company were also factored into the assessment.

The group considers the possible impacts of serious business interruption as part of its operational risk assessment process and remains mindful of the importance of maintaining its reputation. Although the business is almost wholly UK-situated, it does not suffer from any material client, geographical or counterparty concentrations.

While this stress test does not consider all of the risks that the group may face, the directors consider that this stress testing based assessment of the group's prospects is reasonable in the circumstances of the inherent uncertainty involved.

Viability statement

In accordance with the UK Corporate Governance Code, the board has assessed the prospects and viability of the group over a three-year period considering the risk assessments identified above. The directors have considered the firm's current position and the potential impact of the principal risks and uncertainties set out above. As part of the viability statement, the directors confirm that they have carried out a robust assessment of both the principal risks facing the group, and stress tests and scenarios that would threaten the sustainability of its business model, and its future performance, solvency or liquidity.

The board regularly reviews business performance and at least annually its current strategic plan through to 2024, alongside a strategic risk assessment. The board also considers five-year projections as part of its annual regulatory reporting cycle, including strategic and investment plans. However, the directors have determined and continue to believe that a three-year period to 31 December 2023 constitutes an appropriate and prudent period over which to provide its viability statement given the uncertainties associated with the global pandemic, as well as economic and political factors and their potential impact on investment markets over a longer period. This three-year view is also more aligned to the firm's detailed stress testing and capital planning activity.

Stress testing and scenario analysis shows that under scenarios such as a 42% fall in FTSE 100 levels or a major reputational risk event, the group would remain profitable and able to withstand the impact of such scenarios. An example of a mitigating action in such scenarios would be a reduction in costs, specifically around change initiatives, along with a reduction in dividend.

Based on this assessment, the directors confirm that they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2023.

Going concern

Details of the group's business activities, results, cash flows and resources, together with the risks it faces and other factors likely to affect its future development, performance and position are set out in the chairman's statement, chief executive's review, financial performance and segmental review.

The group companies are regulated by the Prudential Regulation Authority (PRA) and/or the Financial Conduct Authority (FCA) and perform annual capital adequacy assessments, which include the modelling of certain extreme stress scenarios. The company publishes Pillar 3 disclosures annually on its website, which provide detail about its regulatory capital re-sources and requirements. In July 2015, Rathbone Investment Management issued £20 million of 10-year subordinated loan notes to finance future growth. The group has no other external borrowings.

The directors believe that the company is well placed to manage its business risks successfully despite the continuing un-certain economic and political outlook. As the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Interest and similar income		**14,976**	28,553
Interest expense and similar charges		**(6,554)**	(12,141)
Net interest income		**8,422**	16,412
Fee and commission income		**378,240**	352,519
Fee and commission expense		**(24,491)**	(23,547)
Net fee and commission income		**353,749**	328,972
Net trading income		**(12)**	170
Other operating income		**3,929**	2,517
Operating income		**366,088**	348,071
Charges in relation to client relationships and goodwill		**(14,302)**	(15,964)
Acquisition-related costs	5	**(34,449)**	(33,057)
Other operating expenses		**(273,558)**	(259,398)
Operating expenses		**(322,309)**	(308,419)
Profit before tax		**43,779**	39,652
Taxation	6	**(17,127)**	(12,729)
Profit after tax		**26,652**	26,923
Profit for the year attributable to equity holders of the company		**26,652**	26,923
Other comprehensive income:			
Items that will not be reclassified to profit or loss			
Net remeasurement of defined benefit liability	10	**(4,682)**	310
Deferred tax relating to net remeasurement of defined benefit liability		**1,668**	(53)
Other comprehensive income net of tax		**(3,014)**	257
Total comprehensive income for the year net of tax attributable to equity holders of the company		**23,638**	27,180
Dividends paid and proposed for the year per ordinary share	7	**72.0p**	70.0p
Dividends paid and proposed for the year		**38,728**	37,714
Earnings per share for the year attributable to equity holders of the company:	12		
– basic		**49.6p**	50.3p
– diluted		**47.6p**	48.7p

Consolidated statement of changes in equity

for the year ended 31 December 2020

	Note	Share capital £'000	Share premium £'000	Merger reserve £'000	Own shares £'000	Retained earnings £'000	Total equity £'000
At 1 January 2019 (restated)		2,760	205,273	56,785	(32,737)	232,059	464,140
Profit for the year						26,923	26,923
Net remeasurement of defined benefit liability	10					310	310
Deferred tax relating to components of other comprehensive income						(53)	(53)
Other comprehensive income net of tax		-	-	-	-	257	257
Dividends paid	7					(35,959)	(35,959)
Issue of share capital		58	5,666	14,971			20,695
Share-based payments:							
– value of employee services						19,387	19,387
– cost of own shares acquired					(10,033)		(10,033)
– cost of own shares vesting					799	(799)	-
– tax on share-based payments						(17)	(17)
At 31 December 2019		**2,818**	**210,939**	**71,756**	**(41,971)**	**241,851**	**485,393**
Profit for the year						**26,652**	**26,652**
Net remeasurement of defined benefit liability	10					**(4,682)**	**(4,682)**
Deferred tax relating to components of other comprehensive income						**1,668**	**1,668**
Other comprehensive income net of tax		**-**	**-**	**-**	**-**	**(3,014)**	**(3,014)**
Dividends paid	7					**(37,831)**	**(37,831)**
Issue of share capital		**56**	**4,153**	**-**			**4,209**
Share-based payments:							
– value of employee services						**43,635**	**43,635**
– cost of own shares acquired					**(5,077)**		**(5,077)**
– cost of own shares vesting					**304**	**(304)**	**-**
– tax on share-based payments						**(140)**	**(140)**
At 31 December 2020		**2,874**	**215,092**	**71,756**	**(46,744)**	**270,849**	**513,827**

Consolidated balance sheet

as at 31 December 2020

	Note	2020 £'000	2019 £'000
Assets			
Cash and balances with central banks		**1,802,706**	1,932,997
Settlement balances		**90,373**	52,520
Loans and advances to banks		**159,430**	177,832
Loans and advances to customers		**166,221**	138,412
Investment securities:			
– fair value through profit or loss		**107,559**	105,967
– amortised cost		**651,427**	600,261
Prepayments, accrued income and other assets		**98,714**	95,390
Property, plant and equipment		**14,846**	15,432
Right-of-use assets		**44,856**	49,480
Net deferred tax asset		**3,342**	2,636
Intangible assets	8	**231,144**	227,807
Total assets		**3,370,618**	3,398,734
Liabilities			
Deposits by banks		**893**	28
Settlement balances		**95,412**	57,694
Due to customers		**2,561,767**	2,668,645
Accruals, provisions and other liabilities	9	**112,071**	93,263
Lease liabilities		**56,124**	61,004
Current tax liabilities		**971**	4,766
Subordinated loan notes		**19,768**	19,927
Retirement benefit obligations	10	**9,785**	8,014
Total liabilities		**2,856,791**	2,913,341
Equity			
Share capital		**2,874**	2,818
Share premium		**215,092**	210,939
Merger reserve		**71,756**	71,756
Own shares		**(46,744)**	(41,971)
Retained earnings		**270,849**	241,851
Total equity		**513,827**	485,393
Total liabilities and equity		**3,370,618**	3,398,734

Company registered number: 01000403

Consolidated statement of cash flows

for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Profit before tax		**43,779**	39,652
Change in fair value through profit or loss		**(1,881)**	(410)
Net interest income		**(8,422)**	(16,412)
Impairment losses on financial instruments		**582**	103
Net charge for provisions	9	**143**	3,572
Loss/(profit) on disposal of property, plant and equipment		**-**	428
Depreciation, amortisation and impairment		**31,229**	33,799
Foreign exchange movements		**1,245**	2,152
Defined benefit pension scheme charges	10	**200**	255
Defined benefit pension contributions paid	10	**(3,111)**	(3,128)
Share-based payment charges		**39,986**	31,012
Interest paid		**(5,300)**	(11,421)
Interest received		**12,376**	28,264
		110,826	107,866
Changes in operating assets and liabilities:			
– net decrease/(increase) in loans and advances to banks and customers		**29,852**	(31,076)
– net increase in settlement balance debtors		**(37,852)**	(12,765)
– net increase in prepayments, accrued income and other assets		**(722)**	(13,725)
– net (decrease)/increase in amounts due to customers and deposits by banks		**(106,013)**	442,646
– net increase in settlement balance creditors		**37,718**	21,002
– net increase in accruals, deferred income, provisions and other liabilities		**19,616**	2,802
Cash generated from operations		**53,425**	516,750
Tax paid		**(21,410)**	(17,133)
Net cash inflow from operating activities		**32,015**	499,617
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		**(12,048)**	-
Purchase of property, plant, equipment and intangible assets		**(13,294)**	(17,705)
Purchase/(disposal) of right-of-use assets		**(238)**	-
Proceeds from sale of property, plant and equipment		**-**	(239)
Purchase of investment securities		**(886,847)**	(754,958)
Proceeds from sale and redemption of investment securities		**833,712**	1,058,874
Net cash (used in)/generated from investing activities		**(78,715)**	285,972
Cash flows from financing activities			
Net (repurchase)/issue of ordinary shares	14	**(868)**	(4,340)
Dividends paid	7	**(37,831)**	(35,959)
Payment of lease liabilities		**(4,880)**	(4,623)
Interest paid		**(1,060)**	(1,171)
Net cash used in financing activities		**(44,639)**	(46,093)
Net (decrease)/increase in cash and cash equivalents		**(91,339)**	739,496
Cash and cash equivalents at the beginning of the year		**2,148,033**	1,408,537
Cash and cash equivalents at the end of the year	14	**2,056,694**	2,148,033

Notes to the preliminary announcement

1. Accounting policies

In preparing the financial information included in this statement the group has applied accounting policies which are in accordance with International Financial Reporting Standards as adopted by the EU at 31 December 2020. The accounting policies have been applied consistently to all periods presented in this statement, except as detailed below.

2 Critical accounting judgements and key sources of estimation uncertainty

The group makes judgements and estimates that affect the application of the group's accounting policies and reported amounts of assets, liabilities, income and expenses within the next financial year. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following key accounting policies involve critical judgements made in applying the accounting policy and involve estimations.

2.1 Client relationship intangibles (note 8)

Critical judgements

Client relationship intangibles purchased through corporate transactions

When the group purchases client relationships through transactions with other corporate entities, a judgement is made as to whether the transaction should be accounted for as a business combination or as a separate purchase of intangible assets. In making this judgement, the group assesses the assets, liabilities, operations and processes that were the subject of the transaction against the definition of a business combination in IFRS 3. In particular, consideration is given to the scale of the operations subject to the transaction and whether ownership of a corporate entity has been acquired, among other factors.

Payments to newly recruited investment managers

The group assesses whether payments made to newly recruited investment managers under contractual agreements represent payments for the acquisition of client relationship intangibles or remuneration for ongoing services provided to the group. If these payments are incremental costs of acquiring investment management contracts and are deemed to be recoverable (i.e. through future revenues earned from the funds that transfer), they are capitalised as client relationship intangibles. Otherwise, they are judged to be in relation to the provision of ongoing services and are expensed in the period in which they are incurred. Upfront payments made to investment managers upon joining are expensed as they are not judged to be incremental costs for acquiring the client relationships.

Estimation uncertainty

Amortisation of client relationship intangibles

The group makes estimates as to the expected duration of client relationships to determine the period over which related intangible assets are amortised. The amortisation period is estimated with reference to historical data on account closure rates and expectations that these will continue in the future. During the year, client relationship intangible assets were amortised over a 10-to-15-year period.

Amortisation of £14,302,000 (2019: £15,369,000) was charged during the year. At 31 December 2020, the carrying value of client relationship intangibles was £121,129,000 (2019: £124,456,000).

A reduction of three years in the amortisation period of those client relationship intangible assets currently amortised over 15 years would increase the annual amortisation charge by £5.9 million.

2.2 Retirement benefit obligations (note 10)

Estimation uncertainty

The principal assumptions underlying the reported deficit of £9,785,000 (2019: £8,014,000 deficit) are set out in note 10.

In setting these assumptions, the group makes estimates about a range of long-term trends and market conditions to determine the value of the surplus or deficit on its retirement benefit schemes, based on the group's expectations of the future and advice taken from qualified actuaries. Long-term forecasts and estimates are necessarily highly subjective and subject to risk that actual events may be significantly different to those forecast. If actual events deviate from the assumptions made by the group then the reported surplus or deficit in respect of retirement benefit obligations may be materially different.

The sensitivity of the retirement benefit obligations to changes in all of the underlying estimates are set out in note 10. Of these, the most sensitive assumption is the discount rate used to measure the defined benefit obligation. Increasing the discount rate by 1.0% would decrease the schemes' liabilities by £15,689,000 (2019: £28,701,000). A 1.0% decrease would have an equal and opposite effect.

2 *Critical accounting judgements and key sources of estimation and uncertainty continued*

2.3 Business combinations (note 4)

Critical judgement

Treatment and fair value of consideration transferred

On 31 August 2018, the group acquired the entire share capital of Speirs & Jeffrey ('S&J'). The group accounted for the transaction as a business combination.

As described in note 4, the purchase price payable for the acquisition is split into a number of different parts. The payment of certain elements has been deferred. At 31 December 2020, one element of the deferred consideration remained unvested and subject to ongoing vesting conditions.

Vesting of the £25,000,000 initial share consideration is contingent on continued employment of the vendors and this amount is being charged to profit or loss as a share-based payment for employee services over the vesting period.

Vesting of the earn-out consideration is payable in shares and is conditional on achieving certain operational and financial targets and the continued employment of the vendors.

Estimation uncertainty

Valuation of the earn-out consideration and incentivisation awards

During the year, the group revised its valuation of the-earn out consideration and related incentivisation awards, which are dependent on performance by the acquired business against certain operational and financial targets by 31 December 2020 and 31 December 2021.

The group estimates the total amount payable on these dates to be £44.7 million, based on agreed qualifying funds under management of £5.1 billion at 31 December 2020, and forecast incremental qualifying funds under management of £0.5 billion at 31 December 2021. As a result, accumulated charges of £35.3 million have been recognised since the acquisition in August 2018 with a corresponding credit to equity. An additional £0.6 million has been recognised as a provision on the balance sheet in respect of incentivisation awards to be settled in cash. The associated charge to profit or loss during the year was £23.1 million (note 4).

The value of incremental qualifying funds under management at the end of 2021 has been derived from a probability-weighted scenario analysis, which considers assumptions of forecast client attrition, and the rate at which existing clients will convert from non-discretionary to discretionary mandates.

In the prior year, the group's results were based on forecast qualifying funds under management of £4.8 billion at the end of 2020, and incremental qualifying funds under management of £48.0 million at the end of 2021. The material increase in forecast total qualifying funds under management during the year is due to lower than expected client attrition following the application of the group's standardised fee rates, and a higher market level at 31 December 2020. The group recognised an additional charge of £15.9 million in profit or loss during the period in relation to the increase in total forecast qualifying funds under management.

If qualifying funds under management at 31 December 2021 are £100 million higher or lower than management's estimate then the accumulated charges as at 31 December 2020 for earn-out consideration and incentivisation awards would be £1.25 million higher or lower and the charge to profit or loss in 2020 would be £1.25 million higher or lower.

Under the terms of the agreements, the maximum possible payment for the second earn-out and incentivisation awards is capped at £91,600,000; which represents incremental qualifying funds under management of approximately £3.7 billion at the end of 2021.

3 Segmental information

For management purposes, the group is organised into two operating divisions: Investment Management and Funds. Centrally incurred indirect expenses are allocated to these operating segments on the basis of the cost drivers that generate the expenditure; principally, these are the headcount of staff directly involved in providing those services from which the segment earns revenues, the value of funds under management and administration and the segment's total revenue. The allocation of these costs is shown in a separate column in the table below, alongside the information presented for internal reporting to the group executive committee, which is the group's chief operating decision-maker.

31 December 2020	Investment Management £'000	Funds £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	230,309	43,929	-	274,238
Net commission income	62,297	-	-	62,297
Net interest income	8,422	-	-	8,422
Fees from advisory services and other income	19,629	1,502	-	21,131
Underlying operating income	320,657	45,431	-	366,088
Staff costs - fixed	(83,673)	(4,118)	(29,697)	(117,488)
Staff costs - variable	(56,414)	(12,015)	(9,299)	(77,728)
Total staff costs	(140,087)	(16,133)	(38,996)	(195,216)
Other direct expenses	(33,371)	(8,693)	(36,278)	(78,342)
Allocation of indirect expenses	(67,753)	(7,521)	75,274	-
Underlying operating expenses	(241,211)	(32,347)	-	(273,558)
Underlying profit before tax	79,446	13,084	-	92,530
Charges in relation to client relationships and goodwill (note 8)	(14,302)	-	-	(14,302)
Acquisition-related costs (note 5)	(32,433)	-	(2,016)	(34,449)
Segment profit before tax	32,711	13,084	(2,016)	43,779
Profit before tax attributable to equity holders of the company				43,779
Taxation (note 6)				(17,127)
Profit for the year attributable to equity holders of the company				26,652

	Investment Management £'000	Funds £'000	Total £'000
Segment total assets	3,243,198	121,320	3,364,518
Unallocated assets			6,100
Total assets			3,370,618

3 *Segmental information continued*

31 December 2019	Investment Management £'000	Funds £'000	Indirect expenses £'000	Total £'000
Net investment management fee income	224,135	36,073	–	260,208
Net commission income	51,132	–	–	51,132
Net interest income	16,412	–	–	16,412
Fees from advisory services and other income	19,247	1,072	–	20,319
Underlying operating income	310,926	37,145	–	348,071
Staff costs - fixed	(78,562)	(3,783)	(28,477)	(110,822)
Staff costs - variable	(49,711)	(8,710)	(8,353)	(66,774)
Total staff costs	(128,273)	(12,493)	(36,830)	(177,596)
Other direct expenses	(40,392)	(7,299)	(34,111)	(81,802)
Allocation of indirect expenses	(63,842)	(7,099)	70,941	–
Underlying operating expenses	(232,507)	(26,891)	–	(259,398)
Underlying profit before tax	78,419	10,254	–	88,673
Charges in relation to client relationships and goodwill (note 8)	(15,964)	–	–	(15,964)
Acquisition-related costs (note 5)	(28,246)	–	(4,811)	(33,057)
Segment profit before tax	34,209	10,254	(4,811)	39,652
Profit before tax attributable to equity holders of the company				39,652
Taxation (note 6)				(12,729)
Profit for the year attributable to equity holders of the company				26,923

	Investment Management £'000	Funds £'000	Total £'000
Segment total assets	3,303,691	89,937	3,393,628
Unallocated assets			5,106
Total assets			3,398,734

Underlying operating income is equal to operating income for the year ended 31 December 2020 (2019: equal).

The following table reconciles underlying operating expenses to operating expenses:

	2020 £'000	2019 £'000
Underlying operating expenses	**273,558**	259,398
Charges in relation to client relationships and goodwill (note 8)	**14,302**	15,964
Acquisition-related costs (note 5)	**34,449**	33,057
Operating expenses	**322,309**	308,419

3 *Segmental information continued*

Geographic analysis

The following table presents operating income analysed by the geographical location of the group entity providing the service:

	2020 £'000	2019 £'000
United Kingdom	**353,712**	335,732
Jersey	**12,376**	12,339
Operating income	**366,088**	348,071

The following is an analysis of the carrying amount of non-current assets analysed by the geographical location of the assets:

	2020 £'000	2019 £'000
United Kingdom	**286,409**	239,056
Jersey	**4,437**	4,183
Non-current assets	**290,846**	243,239

Timing of revenue recognition

The following table presents operating income analysed by the timing of revenue recognition of the operating segment providing the service:

	2020		2019	
	Investment Management £'000	**Funds £'000**	Investment Management £'000	Funds £'000
Products and services transferred at a point in time	**56,300**	**(12)**	53,599	172
Products and services transferred over time	**264,851**	**44,949**	257,327	36,973
Underlying operating income	**321,151**	**44,937**	310,926	37,145

Major clients

The group is not reliant on any one client or group of connected clients for generation of revenues.

4 Business combinations

Speirs & Jeffrey

On 31 August 2018, the group acquired 100% of the ordinary share capital of Speirs & Jeffrey Limited ('Speirs & Jeffrey').

Contingent consideration

Contingent consideration of £15,000,000 was paid in May 2019, following the satisfaction of certain operational targets. Of this, £1,050,000 was treated as consideration in the acquisition accounting, as it was paid to vendors who were not required to remain in employment with the group. The amount paid was equal to what was provided for as at the date of acquisition; therefore, no measurement period adjustment has been reflected against the cost of acquisition. The remaining £13,950,000 was paid to vendors required to remain in employment with the group until the targets were met. Hence, it has been treated as remuneration for post-combination services and the grant date fair value charged to profit and loss. The contingent consideration payment was made 100% in shares.

Other deferred payments

The group continues to provide for the cost of other deferred and contingent payments to be made to vendors for the sale of the shares of Speirs & Jeffrey, as well as related incentivisation awards for other staff. These payments require the vendors to remain in employment with the group for the duration of the respective deferral periods. Hence, they are being treated as remuneration for post-combination services and the grant date fair value is charged to profit and loss over the respective vesting periods.

During the year, the group replaced a share-based incentivisation award for support staff with a cash award. The accumulated charge recognised in equity over the related vesting period has been reversed during the year, and a provision has been recognised at the year end in respect of the cash award. The award is expected to be settled within one year.

The remainder of payments are to be made in shares and are being accounted for as equity-settled share-based payments under IFRS 2:

- initial share consideration was payable on completion. However, although the shares were issued on the date of acquisition, they do not vest until the third anniversary of the acquisition date, subject to the vendors remaining employed until this date
- earn-out consideration and related incentivisation awards are payable in two parts in the third and fourth years following the acquisition date. Payment is subject to the delivery of certain operational and financial performance targets.

4 *Business combinations continued*

Further details of each of these elements is as follows:

	Gross amount £'000	Grant date	Grant date fair value £'000	Expected vesting date
Initial share consideration	25,000	31 August 2018	23,462	31 August 2021
Earn-out consideration and incentivisation awards	44,680	31 August 2018	45,344	31 December 2020/21

The gross amount in respect of the earn-out consideration and incentivisation awards represents management's best estimate as to the extent to which the performance targets will be achieved.

The charge recognised in profit or loss for the year ended 31 December 2020 for the above elements is as follows:

	2020 £'000	2019 £'000
Initial share consideration	**9,215**	8,402
Contingent consideration	**–**	6,015
Earn-out consideration and incentivisation awards	**23,042**	9,724
Other deferred awards	**–**	1,885
	32,257	26,026

Other deferred awards represent cash amounts paid one year following the acquisition date.

These costs are being reported as staff costs within acquisition-related costs (see note 5).

Barclays Wealth's Personal Injury and Court of Protection business

On 3 April 2020, the group acquired the trade and assets of Barclays Wealth's Personal Injury and Court of Protection business. The acquired trade relates to the provision of discretionary investment management services to Personal Injury and Court of Protection clients.

Cash consideration of £12,048,000 was transferred on the date of acquisition. The sale and purchase agreement also comprises an employee incentive plan that is payable in two tranches. The awards under this plan are considered to be directly attributable costs of acquiring new client relationships, hence these costs have been capitalised in line with IFRS 15 (note 8).

Identifiable assets acquired and liabilities assumed

The identifiable net assets of the acquired business at the acquisition date were as follows:

	Fair value £'000
Intangible assets	**6,890**
Deferred tax liabilities	**(1,309)**
Total net assets acquired	**5,581**

The fair value of the client relationship intangible assets has been measured using a multi-period earnings method (note 8). The model uses estimates of client longevity and investment performance to derive a series of cash flows, which are discounted to a present value to determine the fair value of the client relationships acquired. The deferred tax liability arises on recognition of the client relationship intangible assets, and is equal to its carrying value.

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	£'000
Total consideration (see above)	**12,048**
Fair value of identifiable net assets acquired (see above)	**(5,581)**
	6,467

Goodwill of £6,467,000 arises as a result of the acquired workforce, expected future growth, and operational synergies arising post integration. The group does not believe there are any key assumptions where reasonable changes could occur which could give rise to a material adjustment in the carrying value.

5 Acquisition-related costs

	2020 £'000	2019 £'000
Acquisition of Speirs & Jeffrey	**34,273**	30,837
Acquisition of Vision and Castle	**–**	2,041
Acquisition of Barclay's Wealth Personal Injury and Court of Protection business	**176**	179
Acquisition-related costs	**34,449**	33,057

Costs relating to the acquisition of Speirs & Jeffrey

The group has incurred the following costs in relation to the 2018 acquisition of Speirs & Jeffrey, summarised by the following classification within the income statement:

	2020 £'000	2019 £'000
Acquisition costs:		
– Staff costs	**32,257**	26,026
– Legal and advisory fees	**20**	103
Integration costs	**1,996**	4,708
	34,273	30,837

Non-staff acquisition costs of £20,000 (2019: £103,000) and integration costs of £1,996,000 (2019: £4,708,000) have not been allocated to a specific operating segment (note 3).

Costs relating to the acquisition of Vision Independent Financial Planning and Castle Investment Solutions

The group made the final payment in relation to the 2015 acquisition of Vision Independent Financial Planning and Castle Investment Solutions at the end of 2019. The group has incurred the following costs in relation to the 2015 acquisition of Vision Independent Financial Planning and Castle Investment Solutions, summarised by the following classification with the income statement:

	2020 £'000	2019 £'000
Staff costs	**–**	1,375
Interest expense	**–**	666
	–	2,041

Amounts reported in staff costs relate to deferred payments to previous owners who were required to remain in employment with the acquired companies until payment. The payment was settled at the end of 2019 (note 9).

Costs relating to the acquisition of Barclays Wealth's Personal Injury and Court of Protection business

On 3 April 2020, the group acquired the trade and assets of Barclays Wealth's Personal Injury and Court of Protection business. The group incurred professional services costs of £176,000 (2019: £179,000) in relation to the acquisition during the year.

6 Income tax expense

	2020 £'000	2019 £'000
Current tax:		
– charge for the year	**18,247**	16,809
– adjustments in respect of prior years	**(727)**	(893)
Deferred tax:		
– credit for the year	**(1,495)**	(3,767)
– adjustments in respect of prior years	**1,102**	580
	17,127	12,729

The tax charge is calculated based on our best estimate of the amount payable as at the balance sheet date. Any subsequent differences between these estimates and the actual amounts paid are recorded as adjustments in respect of prior years.

The tax charge on profit for the year is higher (2019: higher) than the standard rate of corporation tax in the UK of 19.0% (2019: 19.0%).

The differences are explained below:

	2020 £'000	2019 £'000
Tax on profit from ordinary activities at the standard rate of 19.0% (2019: 19.0%) effects of:	**8,318**	7,534
– disallowable expenses	**454**	537
– share-based payments	**2,228**	410
– tax on overseas earnings	**(225)**	(233)
– adjustments in respect of prior year	**375**	(313)
– deferred payments to previous owners of acquired companies (note 5)	**5,455**	4,508
– other	**(49)**	22
– Effect of change in corporation tax rate on deferred tax	**571**	264
	17,127	12,729

7 Dividends

	2020 £'000	2019 £'000
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2019 of 45.0p (2018: 42.0p) per share	**24,316**	22,433
– interim dividend for the year ended 31 December 2020 of 25.0p (2019: 25.0p) per share	**13,515**	13,526
Dividends paid in the year of 70.0p (2019: 67.0p) per share	**37,831**	35,959
Proposed final dividend for the year ended 31 December 2020 of 47.0p (2019: 45.0p) per share	**25,213**	24,188

An interim dividend of 25.0p per share was paid on 6 October 2020 to shareholders on the register at the close of business on 4 September 2020 (2019: 25.0p).

A final dividend declared of 47.0p per share (2019: 45.0p) is payable on 11 May 2021 to shareholders on the register at the close of business on 23 April 2021. The final dividend is subject to approval by shareholders at the Annual General Meeting on 6 May 2021 and has not been included as a liability in the financial statements.

8 Intangible assets

	2020 £'000	2019 £'000
Goodwill	**96,872**	90,405
Other intangible assets	**134,272**	137,402
	231,144	227,807

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the groups of cash-generating units (CGUs) that are expected to benefit from that business combination. During 2019, the group revised its methodology by which it defines its CGUs and how it allocates goodwill to groups of CGUs. This resulted in goodwill of £227,000 previously allocated to the Rooper & Whately CGU being reallocated to the Investment Management group of CGUs.

Under this methodology, the carrying amount of goodwill has been allocated as follows:

	Investment Management £'000	Trust £'000	Total £'000
Cost			
At 1 January 2019 and 1 January 2020	**90,405**	**1,954**	**92,359**
Acquired through business combinations	**6,467**	**–**	**6,467**
At 31 December 2020	**96,872**	**1,954**	**98,826**
Impairment			
At 1 January 2019	–	1,359	1,359
Charge in the year	–	595	595
At 1 January 2020	**–**	**1,954**	**1,954**
Charge in the year	**–**	**–**	**–**
At 31 December 2020	**–**	**1,954**	**1,954**
Carrying amount at 31 December 2020	**96,872**	**–**	**96,872**
Carrying amount at 31 December 2019	90,405	–	90,405
Carrying amount at 1 January 2019	90,405	595	91,000

Goodwill acquired through business combinations in the period relates to the acquisition of the Barclays Wealth's Personal Injury and Court of Protection business (note 4). This has been allocated to the Investment Management group of CGUs. The group does not believe there are any key assumptions where reasonable changes could occur which could give rise to a material adjustment in the carrying value.

Impairment

The recoverable amounts of the groups of CGUs to which goodwill is allocated are assessed using value-in-use calculations. The group prepares cash flow forecasts derived from the most recent financial budgets approved by the board, covering the forthcoming and future years. Budgets are extrapolated for five years based on annual revenue and cost growth for each group of CGUs (see table below), as well as the group's expectation of future industry growth rates. A five-year extrapolation period is chosen as this aligns with the period covered by the group's ICAAP modelling. A terminal growth rate is applied to year five cash flows, which takes into account the net growth forecasts over the extrapolation period and the long-term average growth rate for the industry. The group estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the group of CGUs.

The pre-tax rate used to discount the forecast cash flows for each group of CGU is shown in the table below; these are based on a risk-adjusted weighted average cost of capital. The group judges that these discount rates appropriately reflect the markets in which each group of CGUs operate.

There was no impairment to the goodwill allocated to the Investment Management group of CGUs during the period. The group has considered any reasonably foreseeable changes to the assumptions used in the value-in-use calculation for the Investment Management group of CGUs, including the impact of climate change and COVID-19 to its cash flow projections and the level of risk associated with those cash flows. Based on this assessment, no such change would result in an impairment of the goodwill allocated to this CGU.

During the year ended 31 December 2019, the group recognised an impairment charge of £595,000 in relation to goodwill allocated to the Trust group of CGUs. The recoverable amount of the group of CGUs was lower than the carrying value, which reflected the fact that the business associated with this goodwill is contracting. This reduced the carrying value of the goodwill allocated to the Trust group of CGUs in 2019 to £nil.

8 *Intangible assets continued*

At 31 December	Investment Management 2020	Investment Management 2019	Trust 2020	Trust 2019
Discount rate	**12.2%**	8.7%	**–**	10.7%
Annual revenue growth rate	**5.0%**	3.0%	**–**	(1.0)%
Terminal growth rate	**1.0%**	(2.0)%	**–**	(3.0)%

Other intangible assets

	Client relationships £'000	Software development costs £'000	Purchased software £'000	Total £'000
Cost				
At 1 January 2019	203,617	7,209	36,887	247,713
Internally developed in the year	–	1,485	–	1,485
Purchased in the year	5,269	–	7,012	12,281
Disposals	(1,750)	(512)	(2,751)	(5,013)
At 1 January 2020	**207,136**	**8,182**	**41,148**	**256,466**
Internally developed in the year	**–**	**1,613**	**–**	**1,613**
Acquired through business combinations	**6,890**	**–**	**–**	**6,890**
Purchased in the year	**4,085**	**–**	**6,269**	**10,354**
Disposals	**(1,858)**	**–**	**(1,228)**	**(3,086)**
At 31 December 2020	**216,253**	**9,795**	**46,189**	**272,237**
Amortisation and impairment				
At 1 January 2019	69,061	5,215	25,519	99,795
Impairment charge	–	415	2,727	3,142
Amortisation charge	15,369	919	4,843	21,131
Disposals	(1,750)	(512)	(2,742)	(5,004)
At 1 January 2020	**82,680**	**6,037**	**30,347**	**119,064**
Impairment charge	**–**	**–**	**–**	**–**
Amortisation charge	**14,302**	**1,197**	**6,488**	**21,987**
Disposals	**(1,858)**	**–**	**(1,228)**	**(3,086)**
At 31 December 2020	**95,124**	**7,234**	**35,607**	**137,965**
Carrying amount at 31 December 2020	**121,129**	**2,561**	**10,582**	**134,272**
Carrying amount at 31 December 2019	124,456	2,145	10,801	137,402
Carrying amount at 1 January 2019	134,556	1,994	11,368	147,918

Client relationships of £6,890,000 acquired through business combinations in the period relate to the acquisition of the Barclays Wealth's Personal Injury and Court of Protection business (note 4).

Purchases of client relationships of £4,085,000 (2019: £5,269,000) in the year relate to payments made to investment managers and third parties for the introduction of client relationships.

The total amount charged to profit or loss in the year in relation to goodwill and client relationships was £14,302,000 (2019: £15,369,000).

Purchased software with a cost of £23,803,000 (2019: £20,373,000) has been fully amortised but is still in use.

9 Provisions

Accruals, deferred income, provisions and other liabilities

	2020 £'000	2019 £'000
Trade creditors	**785**	4,001
Other creditors	**20,766**	7,680
Accruals	**81,805**	72,850
Other provisions (see below)	**8,715**	8,732
	112,071	93,263

9 *Provisions continued*

Other provisions

	Deferred, variable costs to acquire client relationship intangibles £'000	Deferred and contingent consideration in business combinations £'000	Legal and compensation £'000	Property-related £'000	Total £'000
At 1 January 2019	1,061	2,378	809	7,536	11,784
Charged to profit or loss	–	–	2,852	1,350	4,202
Unused amount credited to profit or loss	–	–	(320)	(310)	(630)
Net charge to profit or loss	–	–	2,532	1,040	3,572
Other movements	5,269	179	–	–	5,448
Utilised/paid during the year	(5,011)	(2,557)	(1,166)	(3,338)	(12,072)
At 1 January 2020	**1,319**	**–**	**2,175**	**5,238**	**8,732**
Charged to profit or loss		**588**	**639**	**(642)**	**585**
Unused amount credited to profit or loss	**–**	**–**	**(419)**	**(23)**	**(442)**
Net charge to profit or loss	**–**	**588**	**220**	**(665)**	**143**
Other movements	**3,857**	**–**	**–**	**–**	**3,857**
Utilised/paid during the year	**(1,391)**	**–**	**(1,801)**	**(825)**	**(4,017)**
At 31 December 2020	**3,785**	**588**	**594**	**3,748**	**8,715**
Payable within 1 year	**1,289**	**588**	**594**	**–**	**2,471**
Payable after 1 year	**2,496**	**–**	**–**	**3,748**	**6,244**
	3,785	**588**	**594**	**3,748**	**8,715**

Deferred, variable costs to acquire client relationship intangibles

Other movements in provisions relate to deferred payments to investment managers and third parties for the introduction of client relationships, which have been capitalised in the year.

Deferred and contingent consideration in business combinations

Following the satisfaction of certain operational targets, contingent consideration of £1,050,000 was paid to vendors of Speirs & Jeffrey in May 2019 (see note 4). In addition, contingent consideration of £1,507,000 was paid in October 2019 in respect of the acquisition of Vision Independent Financial Planning and Castle Investment Solutions.

Legal and compensation

During the ordinary course of business the group may, from time to time, be subject to complaints, as well as threatened and actual legal proceedings (which may include lawsuits brought on behalf of clients or other third parties) both in the UK and overseas. Any such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to the group's best estimate of the amount required to settle the obligation at the relevant balance sheet date. The timing of settlement of provisions for client compensation or litigation is dependent, in part, on the duration of negotiations with third parties.

Property-related

Property-related provisions of £3,748,000 relate to dilapidation provisions expected to arise on leasehold premises held by the group (2019: £5,238,000). Prior-year balances also included monies due under the contract with the assignee of leases on the group's former property at 1 Curzon Street, which was fully utilised in the year.

Dilapidation provisions are calculated using a discounted cash flow model; during the year ended 31 December 2020, dilapidation provisions decreased by £645,000 (2019: increased by £677,000). The group utilised £825,000 (2019: £3,338,000) of the dilapidations provision held for the surplus property at 1 Curzon Street during the year. The impact of discounting led to an additional credit of £645,000 (2019: additional charge of £1,364,000) being recognised during the year.

Amounts payable after one year

Property-related provisions of £3,748,000 are expected to be settled within 13 years of the balance sheet date, which corresponds to the longest lease for which a dilapidations provision is being held. Remaining provisions payable after one year are expected to be settled within three years of the balance sheet date.

10 Long-term employee benefits

Defined contribution pension scheme

The group operates a defined contribution group personal pension scheme and contributes to various other personal pension arrangements for certain directors and employees. The total of contributions made to these schemes during the year was £10,411,000 (2019: £9,726,000). The group also operates a defined contribution scheme for overseas employees, for which the total contributions were £67,000 (2019: £58,000).

Defined benefit pension schemes

The group operates two defined benefit pension schemes that operate within the UK legal and regulatory framework: the Rathbone 1987 Scheme and the Laurence Keen Retirement Benefit Scheme. The schemes are currently both clients of Rathbone Investment Management, with investments managed on a discretionary basis, in accordance with the statements of investment principles agreed by the trustees. Scheme assets are held separately from those of the group.

The trustees of the schemes are required to act in the best interest of the schemes' beneficiaries. The appointment of trustees is determined by the schemes' trust documentation and legislation. The group has a policy that one third of all trustees should be nominated by members of the schemes.

Following a High Court ruling in 2018, the cost of equalising pension benefits for the impact of unequal Guaranteed Minimum Pensions (GMPs) has been recognised. Only the Laurence Keen Scheme was impacted. The Rathbone 1987 Scheme was never contracted out, meaning there are no GMP benefits in this scheme. Ahead of a specific method for equalisation being agreed with the scheme trustees, the cost has been estimated using a method consistent with that deemed by the High Court to be the minimum necessary to achieve equality. The High Court made a further ruling in November 2020 relating to members with GMPs that had previously transferred out, whereby the scheme remains liable for paying any required adjustments arising from GMP equalisation. An estimate of the additional payment has been recognised as a past service cost in the year.

The Laurence Keen Scheme was closed to new entrants and future accrual with effect from 30 September 1999. Past service benefits continue to be calculated by reference to final pensionable salaries. From 1 October 1999, all the active members of the Laurence Keen Scheme were included under the Rathbone 1987 Scheme for accrual of retirement benefits for further service. The Rathbone 1987 Scheme was closed to new entrants with effect from 31 March 2002 and to future accrual from 30 June 2017.

The schemes are valued by independent actuaries at least every three years using the projected unit credit method, which looks at the value of benefits accruing over the years following the valuation date based on projected salary to the date of termination of services, discounted to a present value using a rate that reflects the characteristics of the liability. The valuations are updated at each balance sheet date in between full valuations. The latest full actuarial valuations were carried out as at 31 December 2019.

The assumptions used by the actuaries, to estimate the schemes' liabilities, are the best estimates chosen from a range of possible actuarial assumptions. Due to the timescale covered by the liability, these assumptions may not necessarily be borne out in practice.

The principal actuarial assumptions used, which reflect the different membership profiles of the schemes, were:

	Laurence Keen Scheme		Rathbone 1987 Scheme	
	2020 % (unless stated)	2019 % (unless stated)	**2020 % (unless stated)**	2019 % (unless stated)
Rate of increase of salaries	**n/a**	n/a	**n/a**	n/a
Rate of increase of pensions in payment	**3.40**	3.40	**3.00**	3.10
Rate of increase of deferred pensions	**3.00**	3.10	**3.00**	3.10
Discount rate	**1.30**	2.05	**1.30**	2.05
Inflation*	**3.00**	3.10	**3.00**	3.10
Percentage of members transferring out of the schemes per annum	**3.00**	3.00	**3.00**	3.00
Average age of members at date of transferring out (years)	**52.5**	52.5	**52.5**	52.5

* Inflation assumptions are based on the Retail Prices Index

10 *Long-term employee benefits continued*

Over the year, the financial assumptions have been amended to reflect changes in market conditions. Specifically:

1. the discount rate has been decreased by 0.75% to reflect a decrease in the yields available on AA-rated corporate bonds
2. the assumed rate of future inflation has decreased by 0.1% and reflects expectations of long-term inflation as implied by changes in the Bank of England inflation yield curve
3. the assumed rates of future increases to pensions in payment has decreased by 0.1% for the Rathbone 1987 Scheme, consistent with the assumed rate of future inflation. For the Laurence Keen Scheme they have remained the same (once rounded).

Over the year the mortality assumptions have been updated. The CMI model used to project future improvements in mortality has been updated from the 2018 version to the 2019 version, and the mortality base tables have been updated from the S2NxA tables with an 85% scaling factor to the S3PxA 'Light' tables with no scaling factor. Other demographic assumptions have remained unchanged.

The assumed duration of the liabilities for the Laurence Keen Scheme is 16 years (2019: 19 years) and the assumed duration for the Rathbone 1987 Scheme is 21 years (2019: 22 years).

The normal retirement age for members of the Laurence Keen Scheme is 65 (60 for certain former directors). The normal retirement age for members of the Rathbone 1987 Scheme is 60 for service prior to 1 July 2009 and 65 thereafter, following the introduction of pension benefits based on Career-Average Revalued Earnings (CARE) from that date. The assumed life expectancy for the membership of both schemes is based on the S3PA 'Light' actuarial tables (2019: S2NA tables) with improvements in line with the CMI 2019 tables with a long-term rate of improvement of 1.5% p.a. The assumed life expectancies on retirement were:

		2020		2019	
		Males	**Females**	Males	Females
Retiring today:	aged 60	**28.2**	**29.8**	27.9	30.0
	aged 65	**23.3**	**24.8**	23.1	25.1
Retiring in 20 years:	aged 60	**29.9**	**31.5**	29.7	31.9
	aged 65	**24.8**	**26.5**	24.7	26.9

The amount included in the balance sheet arising from the group's assets in respect of the schemes is as follows:

	2020			2019		
	Laurence Keen Scheme £'000	**Rathbone 1987 Scheme £'000**	**Total £'000**	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
Present value of defined benefit obligations	**(12,374)**	**(153,030)**	**(165,404)**	(12,726)	(146,398)	(159,124)
Fair value of scheme assets	**12,592**	**143,027**	**155,619**	12,178	138,932	151,110
Net defined benefit liability	**218**	**(10,003)**	**(9,785)**	(548)	(7,466)	(8,014)

The amounts recognised in profit or loss, within operating expenses, are as follows:

	2020			2019		
	Laurence Keen Scheme £'000	**Rathbone 1987 Scheme £'000**	**Total £'000**	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
Net interest on net liability	**7**	**117**	**124**	15	240	255
Past service cost	**76**	**–**	**76**		–	–
	83	**117**	**200**	15	240	255

Remeasurements of the net defined benefit asset have been reported in other comprehensive income. The actual return on scheme assets was a rise in value of £451,000 (2019: £1,380,000 rise) for the Laurence Keen Scheme and a rise in value of £9,660,000 (2019: £18,357,000 rise) for the Rathbone 1987 Scheme.

10 *Long-term employee benefits continued*

Movements in the present value of defined benefit obligations were as follows:

	2020			2019		
	Laurence Keen Scheme £'000	**Rathbone 1987 Scheme £'000**	**Total £'000**	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
At 1 January	**12,726**	**146,398**	**159,124**	12,383	134,150	146,533
Service cost (employer's part)	**–**	**–**	**–**	–	–	–
Interest cost	**257**	**2,916**	**3,173**	336	3,739	4,075
Contributions from members	**–**	**–**	**–**	–	–	–
Actuarial experience gains	**(1,081)**	**(3,272)**	**(4,353)**	10	121	131
Actuarial (gains)/losses arising from:						
– demographic assumptions	**(389)**	**(5,154)**	**(5,543)**	(293)	(3,243)	(3,536)
– financial assumptions	**1,158**	**20,482**	**21,640**	1,452	17,560	19,012
Past service cost	**76**	**–**	**76**	–	–	–
Benefits paid	**(373)**	**(8,340)**	**(8,713)**	(1,162)	(5,929)	(7,091)
At 31 December	**12,374**	**153,030**	**165,404**	12,726	146,398	159,124

Movements in the fair value of scheme assets were as follows:

	2020			2019		
	Laurence Keen Scheme £'000	**Rathbone 1987 Scheme £'000**	**Total £'000**	Laurence Keen Scheme £'000	Rathbone 1987 Scheme £'000	Total £'000
At 1 January	**12,178**	**138,932**	**151,110**	11,624	123,712	135,336
Remeasurement of net defined benefit liability:						
– interest income	**250**	**2,799**	**3,049**	321	3,499	3,820
– return on scheme assets (excluding amounts included in interest income)	**201**	**6,861**	**7,062**	1,059	14,858	15,917
Contributions from the sponsoring companies	**336**	**2,775**	**3,111**	336	2,792	3,128
Contributions from scheme members	**–**	**–**	**–**	–	–	–
Benefits paid	**(373)**	**(8,340)**	**(8,713)**	(1,162)	(5,929)	(7,091)
At 31 December	**12,592**	**143,027**	**155,619**	12,178	138,932	151,110

The statements of investment principles set by the trustees of both schemes were revised in 2020. They require that the assets of the schemes are invested in a diversified portfolio of assets, split between return-seeking assets (primarily equities) and safer assets (corporate bonds and liability-driven investments).

The expected asset allocations at 31 December 2020 as set out in the statements of investment principles are as follows:

Target asset allocation at 31 December 2020	**Laurence Keen Scheme**	**Rathbone 1987 Scheme**
Benchmark		
Safer assets	**60%**	**60%**
Growth assets	**40%**	**40%**
Range		
Safer assets	**50% - 70%**	**50% - 70%**
Growth assets	**30% - 50%**	**30% - 50%**

10 *Long-term employee benefits continued*

The analysis of the scheme assets, measured at bid prices, at the balance sheet date was as follows:

Laurence Keen Scheme	**2020 Fair value £'000**	2019 Fair value £'000	**2020 Current allocation %**	2019 Current allocation %
Equity instruments:				
– United Kingdom	**485**	3,320		
– Eurozone	**555**	408		
– North America	**2,284**	696		
– Other	**2,048**	704		
	5,372	5,128	**43**	42
Debt instruments:				
– United Kingdom government bonds	**–**	4,693		
– Overseas corporate bonds	**–**	158		
– United Kingdom corporate bonds	**4,489**	1,847		
	4,489	6,698	**36**	55
Liability-driven investments	**2,441**	–	**19**	–
Cash	**161**	79	**1**	1
Other	**129**	273	**1**	2
At 31 December	**12,592**	12,178	**100**	100

Rathbone 1987 Scheme	**2020 Fair value £'000**	2019 Fair value £'000	**2020 Current allocation %**	2019 Current allocation %
Equity instruments:				
– United Kingdom	**29,299**	42,518		
– Eurozone	**5,948**	6,769		
– North America	**15,978**	9,492		
– Other	**15,497**	8,887		
	66,722	67,666	**46**	48
Debt instruments:				
– United Kingdom government bonds	**–**	37,184		
– Overseas government bonds	**–**	1,324		
– United Kingdom corporate bonds	**41,509**	11,198		
– Overseas corporate bonds	**–**	–		
	41,509	49,706	**29**	36
Derivatives:				
– Interest rate swap funds	**–**	14,615		
	–	14,615	**–**	11
Liability-driven investments	**32,700**	–	**24**	–
Cash	**2,096**	6,945	**1**	5
Other	**–**	–	**–**	–
At 31 December	**143,027**	138,932	**100**	100

All equity instruments have quoted prices in active markets. 'Other' scheme assets comprise commodities (2019: comprise commodities and property funds). Buy and maintain credit funds have been classified as UK corporate bonds.

The Rathbone 1987 Scheme previously held shares in real-time inflation-linked interest rate swap funds, which had a fair value of £14,615,000 at 31 December 2019. During the year, a proportion of assets were transferred to new fund managers, Legal and General Investment Management, and the interest rate swap instrument was subsequently sold. The Scheme now holds liability-driven investments, which act to reduce the group's exposure to changes in net defined benefit pension obligations arising from changes in interest rates and inflation.

10 *Long-term employee benefits continued*

The key assumptions affecting the results of the valuation are the discount rate, future inflation, mortality, the rate of members transferring out and the average age at the time of transferring out. In order to demonstrate the sensitivity of the results to these assumptions, the actuary has recalculated the defined benefit obligations for each scheme by varying each of these assumptions in isolation whilst leaving the other assumptions unchanged. For example, in order to demonstrate the sensitivity of the results to the discount rate, the actuary has recalculated the defined benefit obligations for each scheme using a discount rate that is 0.5% higher than that used for calculating the disclosed figures. A similar approach has been taken to demonstrate the sensitivity of the results to the other key assumptions. A summary of the sensitivities in respect of the total of the two schemes' defined benefit obligations is set out below.

	Combined impact on schemes' liabilities	
	(Decrease)/increase £'000	(Decrease)/increase %
1.0% increase in:		
– discount rate	(15,689)	(9.5%)
0.5% increase in:	11,608	7.0%
– rate of inflation		
Reduce allowance for future transfers to nil	3,189	1.9%
1-year increase to:		
– longevity at 60	7,356	4.4%
– average age of members at the time of transferring out	872	0.5%

The total contributions made by the group to the 1987 Scheme during the year were £2,775,000 (2019: £2,792,000). The group has a commitment to pay deficit-reducing contributions of £4,750,000 by 31 August 2021, £3,750,000 by 31 August 2022 and a further £2,750,000 by 31 August 2023 and each subsequent 31 August up to and including 31 August 2026, so long as that scheme remains in deficit. The deficit funding plan will be reviewed following the next triennial valuation, as at 31 December 2022.

The total contributions made by the group to the Laurence Keen Scheme during the year were £336,000 (2019: £336,000). The group has a commitment to pay deficit-reducing contributions of £168,000 by 28 February each year from 2021 to 2026 (inclusive) and a further £168,000 by 31 August in each of those years, so long as that scheme remains in deficit.

No allowance has been made for a minimum funding requirement under IFRIC 14. The funding plans only require further contributions if the schemes remain in deficit.

11 Fair values

The table below analyses financial instruments measured at fair value into a fair value hierarchy based on the valuation technique used to determine the fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

At 31 December 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Fair value through profit or loss:				
– equity securities	**5,728**	**–**	**2,569**	**8,297**
– money market funds	**–**	**99,262**	**–**	**99,262**
	5,728	**99,262**	**2,569**	**107,559**

At 31 December 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Fair value through profit or loss:				
– equity securities	4,587	–	1,186	5,773
– money market funds	–	100,194	–	100,194
	4,587	100,194	1,186	105,967

The group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. There have been no transfers between levels during the year (2019: none).

The fair value of listed equity securities is their quoted price. Money market funds are demand securities and changes to estimates of interest rates will not affect their fair value. The fair value of money market funds is their daily redemption value.

The fair values of the group's other financial assets and liabilities are not materially different from their carrying values, with the exception of the following:

- Investment debt securities measured at amortised cost comprise bank and building society certificates of deposit, which have fixed coupons. The fair value of debt securities at 31 December 2020 was £654,769,000 (2019: £604,462,000) and the carrying value was £651,533,000 (2019: £600,291,000). Fair value of debt securities is based on market bid prices, and hence would be categorised as level 1 within the fair value hierarchy.
- Subordinated loan notes comprise Tier 2 loan notes. The fair value of the loan notes at 31 December 2020 was £21,726,000 (2019: £21,302,000) and the carrying value was £19,768,000 (2019: £19,927,000). Fair value of the loan notes is based on discounted future cash flows using current market rates for debts with similar remaining maturity, and hence would be categorised as level 2 in the fair value hierarchy.

Level 3 financial instruments

Fair value through profit or loss

The group holds 1,809 shares in Euroclear Holdings SA, which are classed as level 3 in the fair value hierarchy since no observable market data is available. At 31 December 2019, the fair value of these shares was calculated with reference to the last buyback event in May 2017 when shares were sold at €774.

In the current period, the valuation of €1,586 per share has been calculated by reference to the most readily available data, which is the indicative price derived from recent transactions of the shares in the market. The valuation at the balance sheet date has been adjusted for movements in exchange rates since the acquisition date. A 10% weakening of the euro against sterling, occurring on 31 December 2020, would have reduced equity and profit after tax by £208,000 (2019: £96,000). A 10% strengthening of the euro against sterling would have had an equal and opposite effect.

Changes in the fair values of financial instruments categorised as level 3 within the fair value hierarchy were as follows:

	2020	2019
At 1 January	**1,186**	1,259
Total unrealised (losses)/gains recognised in profit or loss	**1,383**	(73)
At 31 December	**2,569**	1,186

The gains or losses relating to the fair value through profit or loss equity securities is included within 'other operating income' in the consolidated statement of comprehensive income.

There were no other gains or losses arising from changes in the fair value of financial instruments categorised as level 3 within the fair value hierarchy.

12 Earnings per share

Earnings used to calculate earnings per share on the bases reported in the financial statements were:

	2020 Pre-tax £'000	2020 Taxation £'000	2020 Post-tax £'000	2019 Pre-tax £'000	2019 Taxation £'000	2019 Post-tax £'000
Underlying profit attributable to shareholders	**92,530**	**(20,928)**	**71,602**	88,673	(17,535)	71,138
Charges in relation to client relationships and goodwill (note 8)	**(14,302)**	**2,717**	**(11,585)**	(15,964)	3,033	(12,931)
Acquisition-related costs (note 5)	**(34,449)**	**1,084**	**(33,365)**	(33,057)	1,773	(31,284)
Profit attributable to shareholders	**43,779**	**(17,127)**	**26,652**	39,652	(12,729)	26,923

Basic earnings per share has been calculated by dividing profit attributable to shareholders by the weighted average number of shares in issue throughout the year, excluding own shares, of 53,720,680 (2019: 53,566,271).

Diluted earnings per share is the basic earnings per share, adjusted for the effect of contingently issuable shares under the Speirs & Jeffrey initial share consideration and Executive Incentive Plan, employee share options remaining capable of exercise, and any dilutive shares to be issued under the Share Incentive Plan, all weighted for the relevant period:

	2020	2019
Weighted average number of ordinary shares in issue during the year – basic	**53,720,680**	53,566,271
Effect of ordinary share options/Save As You Earn	**231,259**	97,495
Effect of dilutive shares issuable under the Share Incentive Plan	**73,990**	570
Effect of contingently issuable shares under the Executive Incentive Plan	**929,457**	574,393
Effect of contingently issuable shares under Speirs & Jeffrey initial share consideration (note 4)	**1,006,522**	1,006,522
Diluted ordinary shares	**55,961,908**	55,245,251

	2020	2019
Earnings per share for the year attributable to equity holders of the company:		
– basic	**49.6p**	50.3p
– diluted	**47.6p**	48.7p
Underlying earnings per share for the year attributable to equity holders of the company:		
– basic	**133.3p**	132.8p
– diluted	**127.9p**	128.8p

Underlying earnings per share is calculated in the same way as earnings per share, but by reference to underlying profit attributable to shareholders.

13 Related party transactions

Transactions with key management personnel

The remuneration of the key management personnel of the group, who are defined as the company's directors and other members of senior management who are responsible for planning, directing and controlling the activities of the group, is set out below.

Gains on options exercised by directors during the year totalled £nil (2019: £7,000).

	2020 £'000	2019 £'000
Short-term employee benefits	**9,829**	14,176
Post-employment benefits	**298**	296
Other long-term benefits	**941**	2,695
Share-based payments	**3,170**	3,408
	14,238	20,575

Dividends totalling £98,000 were paid in the year (2019: £95,000) in respect of ordinary shares held by key management personnel and their close family members.

As at 31 December 2020, the group had outstanding interest-free season ticket loans of nil (2019: nil) issued to key management personnel.

At 31 December 2020, key management personnel and their close family members had gross outstanding deposits of £616,000 (2019: £636,000) and gross outstanding banking loans of nil (2019: nil), all of which (2019: all) were made on normal business terms. A number of the group's key management personnel and their close family members make use of the services provided by companies within the group. Charges for such services are made at various staff rates.

13 *Related party transactions continued*

Other related party transactions

The group's transactions with the pension funds are described in note 10. At 31 December 2020, no amounts were outstanding with either the Laurence Keen Scheme or the Rathbone 1987 Scheme (2019: none).

One group subsidiary, Rathbone Unit Trust Management, has authority to manage the investments within a number of unit trusts. Another group company, Rathbone Investment Management International, acted as investment manager for a protected cell company offering unitised private client portfolio services. During 2020, the group managed 28 unit trusts, Sociétés d'Investissement à Capital Variable (SICAVs) and open-ended investment companies (OEICs) (together, 'collectives') (2019: 27 unit trusts and OEICs).

The group charges each fund an annual management fee for these services, but does not earn any performance fees on the unit trusts. The management charges are calculated on the bases published in the individual fund prospectuses, which also state the terms and conditions of the management contract with the group.

The following transactions and balances relate to the group's interest in the unit trusts:

Year ended 31 December	**2020 £'000**	2019 £'000
Total management fees	**45,657**	40,111

As at 31 December	**2020 £'000**	2019 £'000
Management fees owed to the group	**4,885**	3,904
Holdings in unit trusts	**5,728**	4,587
	10,613	8,491

Total management fees are included within 'fee and commission income' in the consolidated statement of comprehensive income.

Management fees owed to the group are included within 'accrued income' and holdings in unit trusts are classified as 'fair value through profit or loss equity securities' in the consolidated balance sheet. The maximum exposure to loss is limited to the carrying amount on the balance sheet as disclosed above.

All amounts outstanding with related parties are unsecured and will be settled in cash. No guarantees have been given or received. No expected credit loss provisions have been made in respect of the amounts owed by related parties.

14 Consolidated statement of cash flows

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following balances with less than three months until maturity from the date of acquisition:

	2020 £'000	2019 £'000
Cash and balances at central banks	**1,798,000**	1,930,000
Loans and advances to banks	**159,432**	117,839
Fair value through profit or loss investment securities	**99,262**	100,194
At 31 December	**2,056,694**	2,148,033

Fair value thought profit or loss investment securities are amounts invested in money market funds, which are realisable on demand.

Cash flows arising from the (repurchase)/issue of ordinary shares comprise:

	2020 £'000	2019 £'000
Share capital issued	**56**	58
Share premium on shares issued	**4,153**	5,666
Merger reserve on shares issued	**–**	14,971
Shares issued in relation to share-based schemes for which no cash consideration was received	**–**	(15,001)
Shares issued in relation to share buybacks	**(5,077)**	(10,034)
	(868)	(4,340)

14 *Consolidated statement of cash flows continued*

A reconciliation of the movements of liabilities to cash flows arising from financing activities was as follows:

	Liabilities	Equity			
	Subordinated loan notes £'000	Share capital/ premium £'000	Reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2020	**19,927**	**213,757**	**29,785**	**241,851**	**505,320**
Changes from financing cash flows					
Proceeds from issue of share capital	**–**	**4,209**	**–**	**–**	**4,209**
Proceeds from sale of treasury shares	**–**	**–**	**(4,773)**	**(304)**	**(5,077)**
Dividends paid	**–**	**–**	**–**	**(37,831)**	**(37,831)**
Total changes from financing cash flows	**–**	**4,209**	**(4,773)**	**(38,135)**	**(38,699)**
The effect of changes in foreign exchange rates	**–**	**–**	**–**	**–**	**–**
Changes in fair value	**–**	**–**	**–**	**–**	**–**
Other changes	**(393)**	**–**	**–**	**–**	**(393)**
Liability-related					
Interest expense	**1,294**	**–**	**–**	**–**	**1,294**
Interest paid	**(1,060)**	**–**	**–**	**–**	**(1,060)**
Total liability-related changes	**(159)**	**–**	**–**	**–**	**(159)**
Total equity-related other changes	**–**	**–**	**–**	**67,133**	**67,133**
At 31 December 2020	**19,768**	**217,966**	**25,012**	**270,849**	**533,595**

	Liabilities	Equity			
	Subordinated loan notes £'000	Share capital/ premium £'000	Reserves £'000	Retained earnings £'000	Total £'000
At 1 January 2019 (restated)	19,807	208,033	24,048	232,059	483,947
Changes from financing cash flows					
Proceeds from issue of share capital	–	5,694	–	–	5,694
Proceeds from sale of treasury shares	–	–	(9,234)	(799)	(10,033)
Dividends paid	–	–	–	(35,959)	(35,959)
Total changes from financing cash flows	–	5,694	(9,234)	(36,758)	(40,298)
The effect of changes in foreign exchange rates	–	–	–	–	–
Changes in fair value	–	–	–	–	–
Other changes					
Liability-related					
Interest expense	1,291	–	–	–	1,291
Interest paid	(1,171)	–	–	–	(1,171)
Total liability-related changes	120	–	–	–	120
Total equity-related other changes	–	30	14,971	46,550	61,551
At 31 December 2019	19,927	213,757	29,785	241,851	505,320

15 Events after the balance sheet date

In the budget on 3 Mach 2021, the Chancellor announced his intention to increase the rate of corporation tax to 25% in 2023, from the current rate of 19%. We will reflect this rate in the deferred tax calculations when the change receives Royal Assent and is thereby enacted.

16 Financial information

The financial information set out in this preliminary announcement has been extracted from the Group's financial statements, which have been approved by the Board of directors and agreed with the Company's auditor.

The financial information set out above does not constitute the Company's statutory financial statements for the years ended 31 December 2020 or 2019. Statutory financial statements for 2019 have been delivered to the Registrar of Companies. Statutory financial statements for 2020 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditor has reported on both the 2019 and 2020 financial statements. Their reports were unqualified and did not draw attention to any matters by way of emphasis. They also did not contain statements under Section 498 of the Companies Act 2006.

17 Forward looking statements

This announcement contains certain forward-looking statements, which are made by the directors in good faith based on the information available to them at the time of their approval of the 2020 annual report. Statements contained within this announcement should be treated with some caution due to the inherent uncertainties (including but not limited to those arising from economic, regulatory and business risk factors) underlying any such forward-looking statements. This announcement has been prepared by Rathbone Brothers Plc to provide information to its shareholders and should not be relied upon for any other purpose.

Independent Auditor's Report to the shareholders of Rathbone Brothers PLC

Independent Auditor's Report to the shareholders of Rathbone Brothers PLC on the preliminary announcement of Rathbone Brothers PLC

As the independent auditor of Rathbone Brothers PLC we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of Rathbone Brothers PLC's preliminary announcement statement of annual results for the period ended 31 December 2020.

The preliminary statement of annual results for the period ended 31 December 2020 includes:

- Disclosures required by the Listing Rules;
- Chairman's statement;
- Chief executive's review;
- Overview of financial performance;
- Overview of risk management and control;
- Consolidated statement of comprehensive income;
- Consolidated statement of changes in equity;
- Consolidated balance sheet;
- Consolidated statement of cash flows; and
- Notes to the preliminary announcement.

We are not required to agree to the publication of presentations to analysts, trading statement, interim management statement or half-yearly financial report.

The directors of Rathbone Brothers PLC are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council's Bulletin "The Auditor's Association with Preliminary Announcements made in accordance with UK Listing Rules".

Status of our audit of the financial statements

Our audit of the annual financial statements of Rathbone Brothers PLC is complete and we signed our auditor's report on 3 March 2021. Our auditor's report is not modified and contains no emphasis of matter paragraph.

Our audit report on the full financial statements sets out the following key audit matters which had the greatest effect on our overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those key audit matters and the key observations arising from our work:

Investment management fee income

Key audit matter description

As detailed in the summary of principal accounting policies in note 1 and in note 3 to the financial statements (included within note 3 to this announcement), revenue comprises net investment management fee income of £274.2m (2019: £260.2m), net commission income of £62.3m (2019: £51.1m), net interest income of £8.4m (2019: £16.4m) and fees from advisory services and other income of £21.1m (2019: £20.3m).

Investment management ("IM") fees from the IM segment account for approximately 80% of total revenue and are based on a percentage of an individual client's funds under management ("FUM"). Due to its many long standing client relationships and history of acquisitions, the number of fee schedules managed by the group is high. This means that fee amendments can require a degree of manual intervention.

During the year, the group acquired the Barclays Wealth Court of Protection business ("Barclays Wealth") and have migrated all clients onto the group's core technology platform. In October 2020, the group also migrated all Speirs & Jeffrey ("S&J") clients onto the set rate card.

As a result, we identified a key audit matter relating to the risk that, whether due to error or fraud, incorrect fee rates could be used to calculate investment management fees, or that manual amendments are inaccurate, incomplete or invalid.

How our audit responded to this key audit matter

We tested controls over the calculation of investment management fees. This included controls relating to the set-up of client fee rates, rate card amendments, the valuation of FUM and the system generated investment management fees, including associated IT controls.

We used data analytics to recalculate the system generated amount for the total fee population. We agreed a sample of client fee rates through to client contracts and the value of FUM to third party sources.

We inspected evidence of authority and rationale for a sample of manual fee rate amendments made to system generated fees.

We also performed specific testing on the migration of Barclays Wealth clients onto the group's core technology platform, and the migration of S&J clients onto the set rate card, to check that their fees were calculated in line with their contractual terms.

Key observations

We concluded that the investment management fee revenue is appropriately recognised for the year ended 31 December 2020.

Defined benefit pension scheme liability

Key audit matter description

The group has recognised a defined benefit pension scheme liability of £9.8m (2019: £8.0m). The net liability comprises assets of £155.6m (2019: £151.1m) and liabilities of £165.4m (2019: £159.1m).

The calculation of the liability is sensitive to changes in underlying assumptions and is considered to be a key source of estimation uncertainty for the group as detailed in note 2, disclosed in note 29 to the financial statements (included within note 10 to this announcement).

The key assumptions are in respect of the discount rate, inflation rate and mortality rate where small changes to these assumptions could result in a material change to the valuation of the pension scheme liability.

How our audit responded to this key audit matter

In order to evaluate the appropriateness of the assumptions used by management, we obtained an understanding of relevant controls over the appropriate determination of assumptions and the calculation of the liability to be recognised in the financial statements.

With the involvement of our in-house actuarial specialists, we made direct enquiries of the group's actuary to review and challenge each of the key assumptions used in the IAS 19 ("Employee Benefits") pension valuation. In particular, we compared each assumption used by management against independently determined benchmarks derived using market and other data.

Key observations

We concluded that each of the key assumptions used by management to estimate the defined benefit pension scheme liability are consistent with the requirements of IAS 19 and that the valuation of the defined pension scheme liability has been appropriately determined.

Impairment of client relationship intangibles and goodwill

Key audit matter description

The group holds client relationship intangibles of £121.1 million (2019: £124.5 million) and goodwill of £96.9 million (2019: £90.4 million) comprising both relationships acquired through business combinations and through acquisition of individual investment managers and their client portfolios. We have identified this matter as a fraud risk, given the inherent judgement and level of estimation in the annual impairment review.

As detailed in the summary of principal accounting policies in note 1 and note 2 to the financial statements (included within note 8 to this announcement), client relationships are reviewed for indicators of impairment at each balance sheet date and, if an indicator of impairment exists, an impairment test is performed. Goodwill is tested for impairment at least annually, whether or not indicators of impairment exist.

For client relationship intangibles, in determining the appropriate impairment triggers for each portfolio, there is a degree of significant management judgement. This assessment is based on movements in the value of funds under management and the loss of client relationships in advance of the amortisation period.

For goodwill, the impairment assessment is performed by comparing the carrying amount of each cash generating unit ("CGU") to its recoverable amount from its value-in-use, calculated using a discounted cash flow method. In determining the value-in-use for the CGUs, management is required to make assumptions in relation to an appropriate income growth rate, expenditure growth rate and the discount rate. The discount rate, annual growth rate and terminal growth rate used were 12.2%, 5% and 1 % respectively as disclosed in note 22 to the financial statements.

How our audit responded to this key audit matter

We obtained an understanding of relevant controls in relation to the impairment review process for client relationship intangibles for both acquired portfolios and individual relationships and for goodwill. We tested controls in place over Funds Under Management ("FUM") values which form the basis of the impairment assessment.

For client relationship intangibles, we specifically tested the calculations prepared by management as part of the impairment review exercise to assess whether they meet the requirements of IAS 36 "Impairment of Assets". Where the review indicated that an impairment trigger had occurred, we assessed the relevant assumptions and judgements made by management in determining whether an impairment needed to be recognised. We have challenged the key assumptions around the impairment triggers identified for each portfolio, which we have assessed for reasonableness and evaluated the accuracy of the inputs used by management.

For goodwill, in order to challenge the appropriateness of the income and expenditure growth assumptions used in the value-in-use calculation, we have back-tested the assumptions used by management against historical performance and checked for consistency with forecasts used elsewhere in the business. We challenged the determination of the discount rate applied by benchmarking to appropriate market rates of interest and recalculation. We have also independently re-performed management's value-in-use calculation.

Focusing on those assumptions where the impairment test was most sensitive, we also performed sensitivity analysis to assess the risk that reasonably possible changes in assumptions used by management could give rise to an impairment. We challenged with reference to recent trading performance, taking into account the impact of Covid-19 and the group's strategy.

Furthermore, we have performed a review of the disclosures included within the financial statements to determine whether all required information has been included for client relationship intangibles and goodwill.

Key observations

Through our testing for client relationship intangibles and goodwill, we concluded that management's approach and conclusion was appropriate.

Speirs and Jeffrey deferred consideration

Key audit matter description

On 31 August 2018, the group acquired a 100% equity interest in S&J.

The consideration includes a variable element which is dependent on certain operational and financial targets linked to the value of S&J Funds Under Management ("FUM") which is determined to be "Qualifying" under the terms of the sale and purchase agreement. The determination of the total deferred consideration is set based on the qualifying FUM as at the first tranche date of 31 December 2020 and the second tranche date of 31 December 2021. If qualifying FUM does not exceed £4.5bn no deferred consideration is payable.

The expected pay-out of the consideration is accrued over the period from acquisition up until pay-out in 2022, with the P&L charge spread over this period.

The first tranche date has now elapsed, with S&J achieving total qualifying FUM of £5.1bn as at 31 December 2020, resulting in total consideration of £35.0m through to the first tranche date, with a total expense charge of £15.8m in 2020. In order to determine the level of qualifying FUM, the group have had to assess a significant volume of individual client accounts to understand if the required operational and financial targets have been met.

For the second tranche date of 31 December 2021, there remains significant management judgement involved in estimating the level of qualifying FUM. The assumptions underpinning this estimate are considered to be a key source of estimation uncertainty for the Group, as detailed in note 2, disclosed in note 8 to the financial statements (included within note 4 to this announcement). For the second date, management have updated their estimate of the expected pay-out of the consideration and have prospectively adjusted the P&L charge.

The disclosure in respect of this critical accounting estimate for deferred consideration payable, as set out in note 2 to the financial statements, shows the sensitivity, for each £100m movement in qualifying FUM, to the eventual amount that could be payable.

Therefore, we have identified a key audit matter relating to the risk that, whether due to error or fraud, management's calculation of the pay-out to 31 December 2020 and estimate of the pay-out to 31 December 2021, may be materially misstated.

How our audit responded to this key audit matter

For the first tranche date of 31 December 2020, we obtained understanding of relevant controls over the underlying data used to determine the final value of qualifying FUM and controls around the calculation of the final consideration due.

For the first tranche date, we also challenged management on whether the increase in estimate should be recognised as a prior period adjustment, considering the number of highly sensitive assumptions to the estimate, which were largely out of the group's control and were not foreseeable as at the prior year-end.

We selected a sample of client accounts from the S&J FUM listing and agreed through to contract and external client communication. We then assessed if the client account met the operational and financial targets to be deemed qualifying FUM. We have also reviewed minutes of meetings of those charged with governance, to follow through the decision making process and verify the governance process that has taken place.

For the second tranche date of 31 December 2021, we obtained an understanding of controls over the determination of the key assumptions used in the FUM conversion model.

We performed sensitivity analysis to understand which assumptions the estimate is most sensitive to and therefore, have an increased risk of material misstatement. We considered empirical evidence available, including the outcome of the first tranche date qualifying FUM and benchmarked against the investment management market, to challenge on the potential impact of external factors in achieving the group's estimate of qualifying FUM.

We also held targeted meetings with management and key personnel within the business, including a sample of Investment Managers, to challenge the appropriateness of the qualifying FUM estimate for 31 December 2021.

We independently re-performed the calculation of the deferred consideration estimate through to 31 December 2021 and we assessed the appropriateness of the related disclosures including the sensitivity assumptions for the range of estimates included in the disclosure.

Key observations

Given the sensitivity of the underlying assumptions to the estimate calculated as at 31 December 2019, we do not consider the increase in estimate for first tranche date to require a prior period adjustment.

We have concluded satisfactorily that the group's calculation of the pay-out to 31 December 2020 is not materially misstated. Furthermore, we have concluded that the assumptions used by management to estimate the pay-out as at 31 December 2021 are appropriate.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we did not provide a separate opinion on these matters.

Procedures performed to agree to the preliminary announcement of annual results

In order to agree to the publication of the preliminary announcement of annual results of Rathbone Brothers PLC we carried out the following procedures:

(a) checked that the figures in the preliminary announcement covering the full year have been accurately extracted from the audited or draft financial statements and reflect the presentation to be adopted in the audited financial statements;

(b) considered whether the information (including the management commentary) is consistent with other expected contents of the annual report;

(c) considered whether the financial information in the preliminary announcement is misstated;

(d) considered whether the preliminary announcement includes a statement by directors as required by section 435 of CA 2006 and whether the preliminary announcement includes the minimum information required by UKLA Listing Rule 9.7A.1;

(e) where the preliminary announcement includes alternative performance measures ("APMs"), considered whether appropriate prominence is given to statutory financial information and whether:

- the use, relevance and reliability of APMs has been explained;
- the APMs used have been clearly defined, and have been given meaningful labels reflecting their content and basis of calculation;
- the APMs have been reconciled to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period; and
- comparatives have been included, and where the basis of calculation has changed over time this is explained.

(f) read the management commentary, any other narrative disclosures and any final interim period figures and considered whether they are fair, balanced and understandable.

Use of our report

Our liability for this report, and for our full audit report on the financial statements is to the company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for our audit report or this report, or for the opinions we have formed.

Manbhinder Rana FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

3 March 2021